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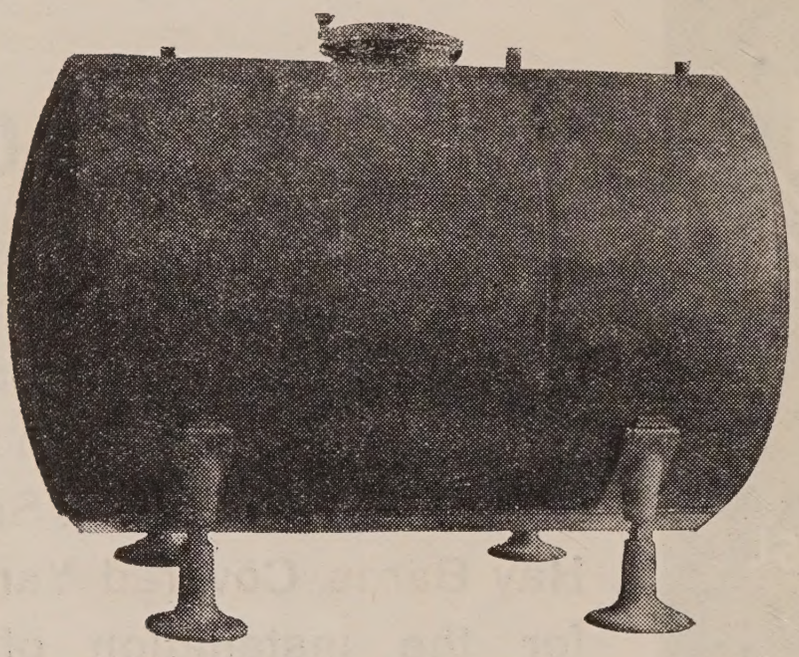
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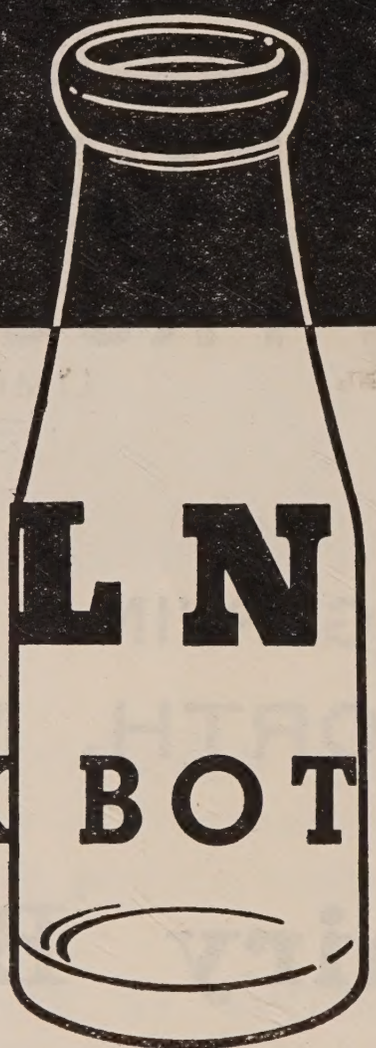
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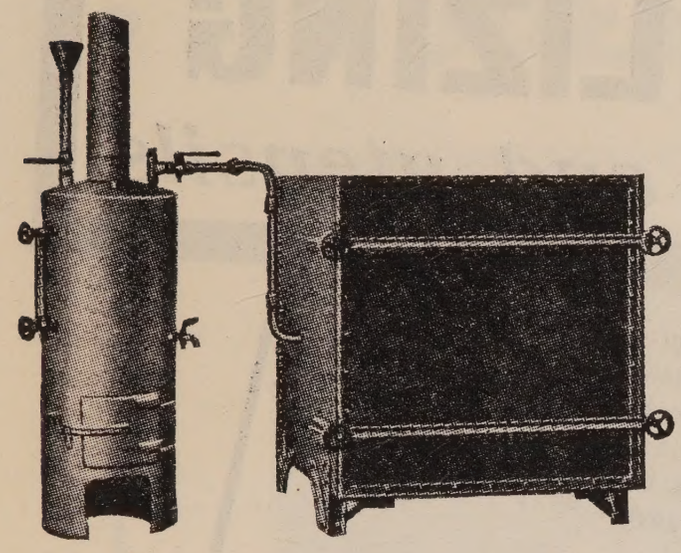
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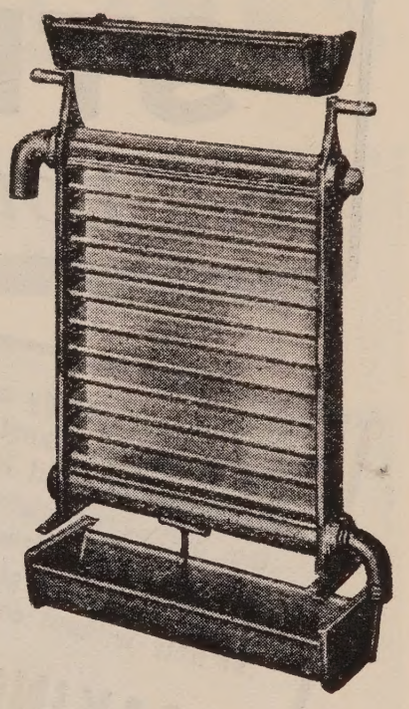
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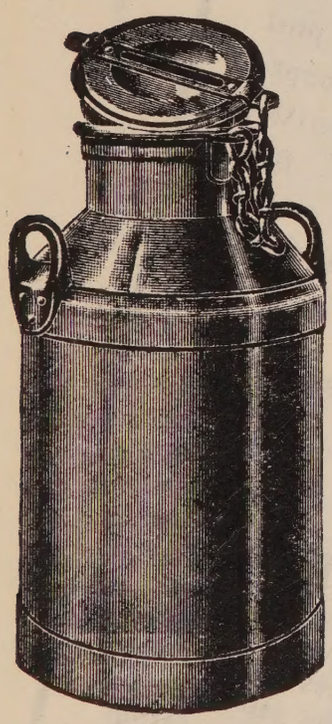
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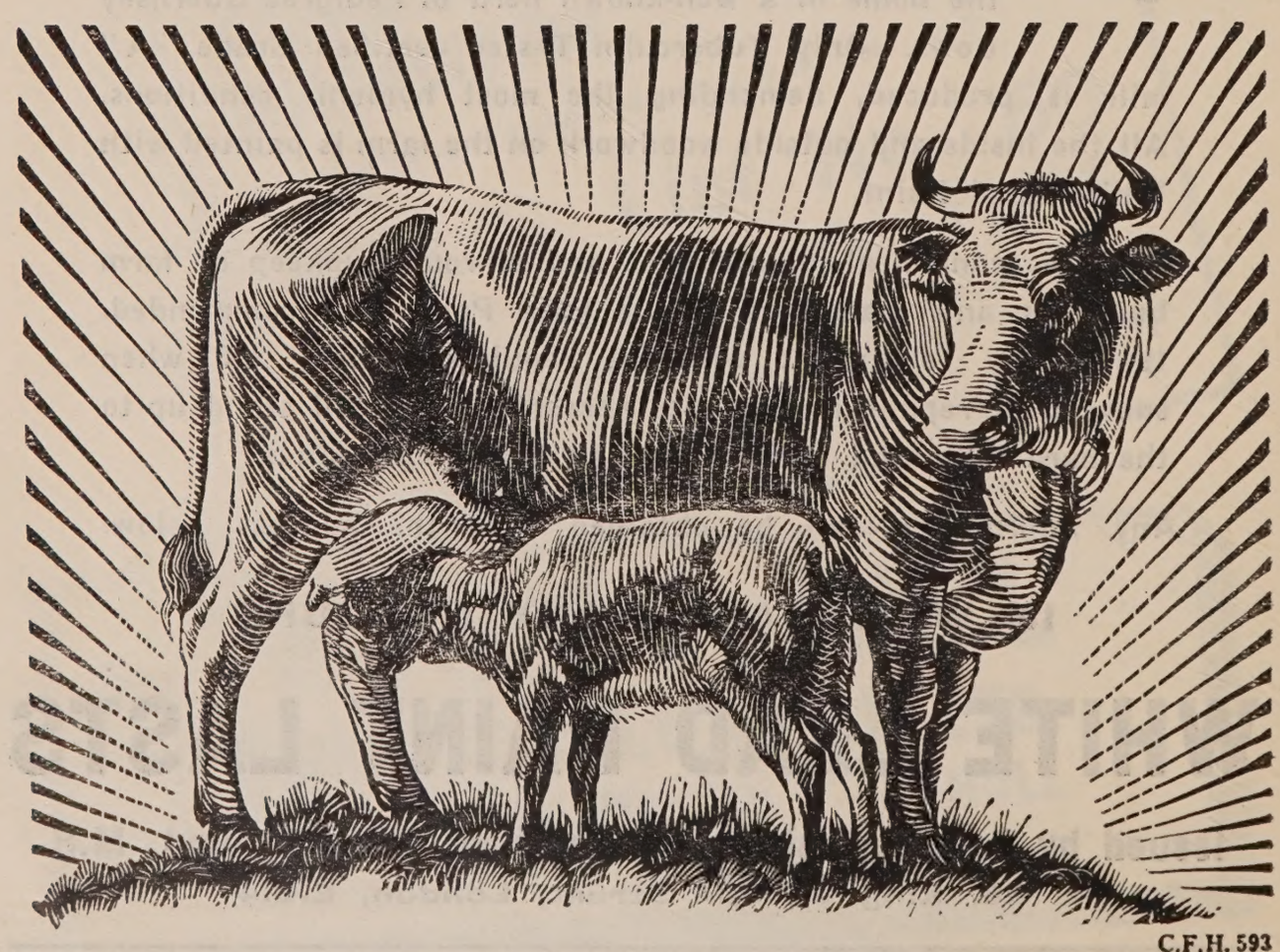
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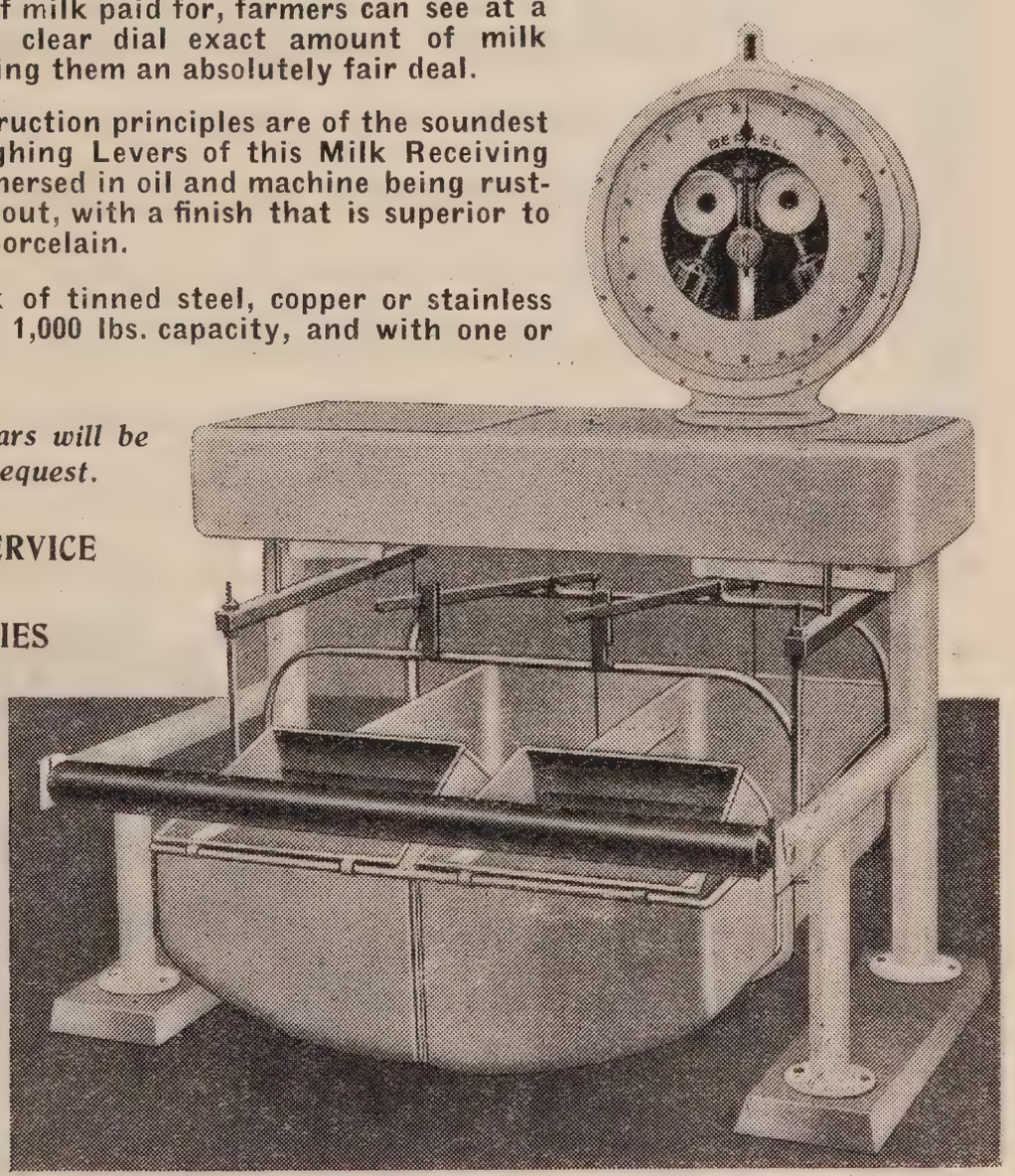
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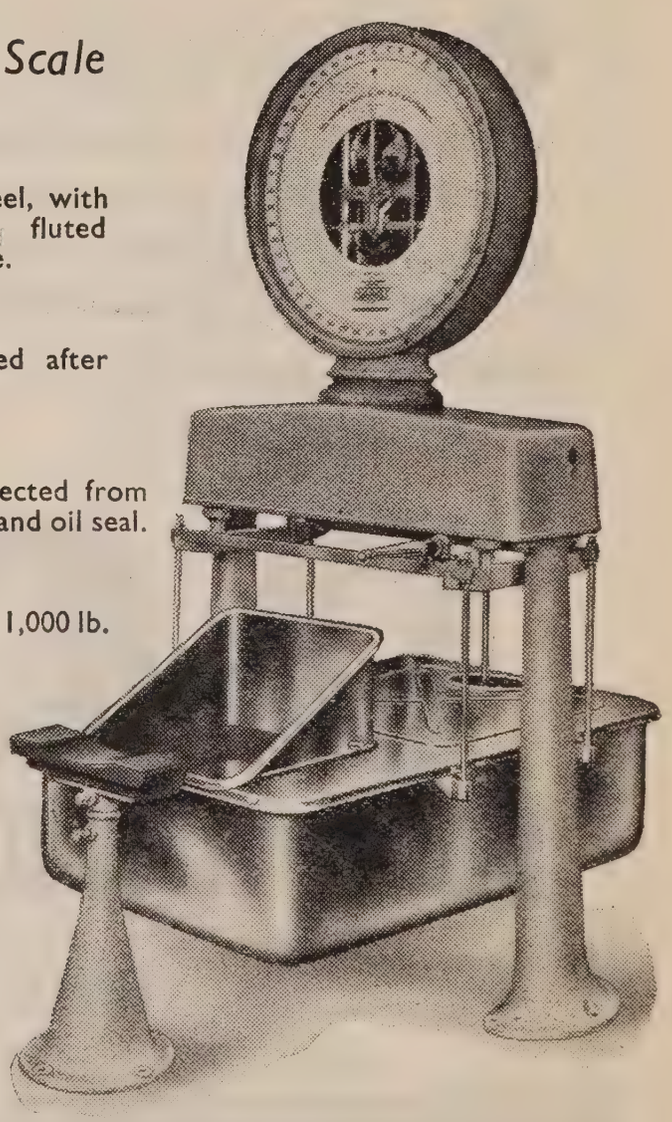
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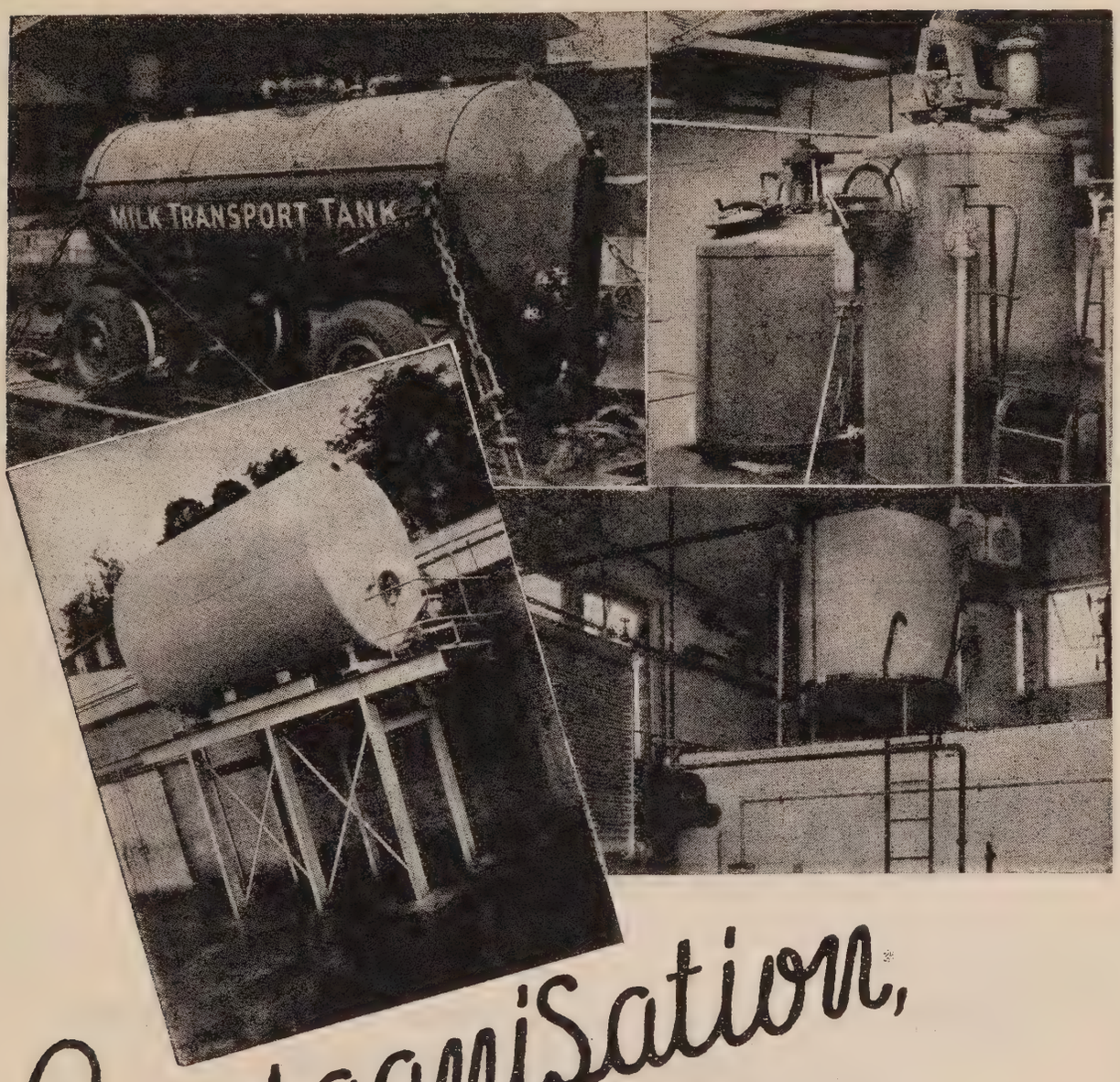
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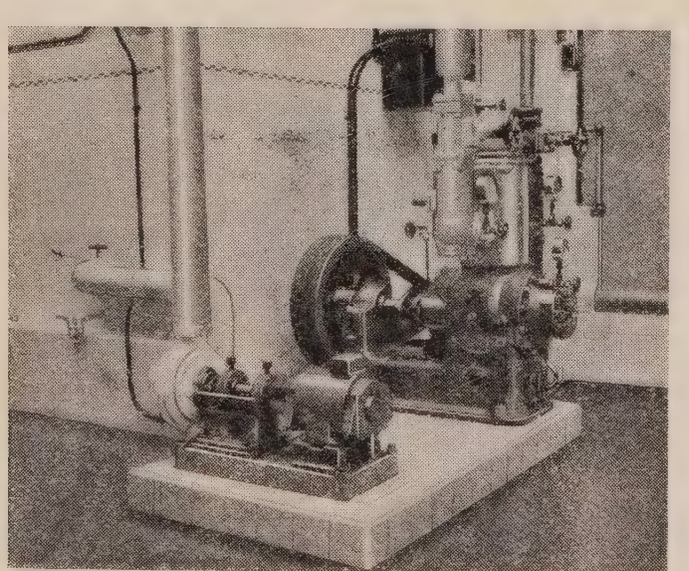
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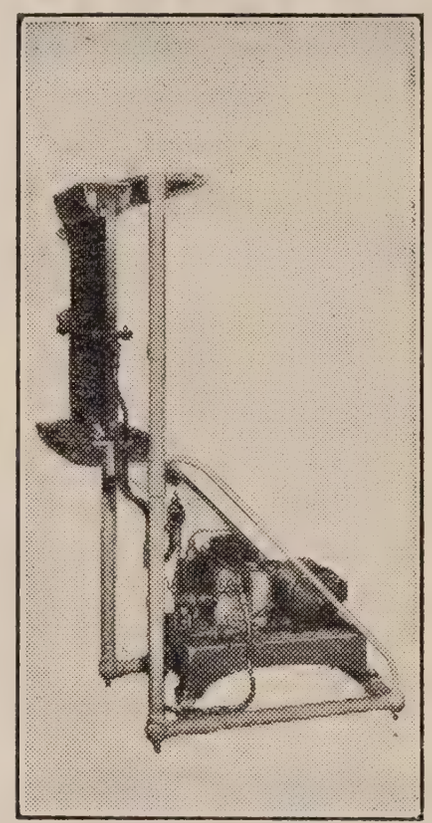
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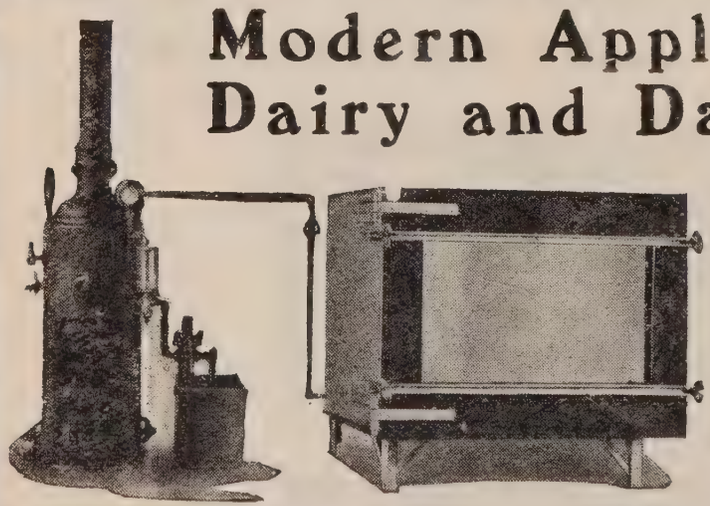
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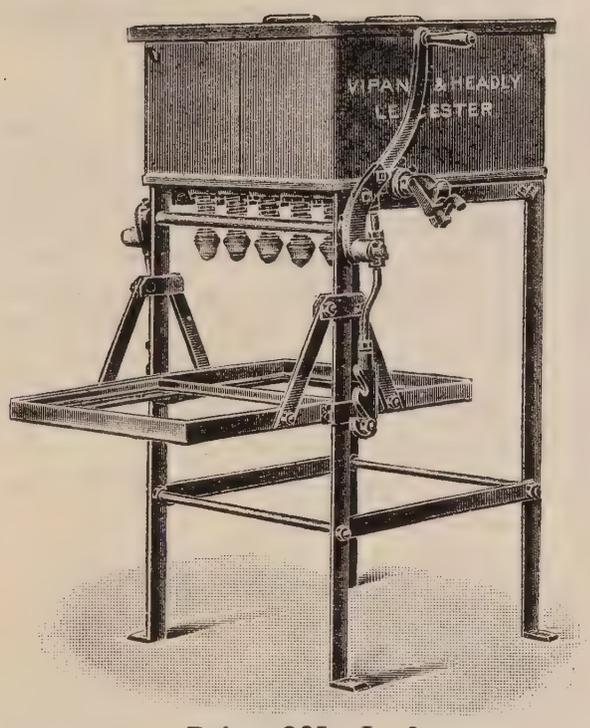


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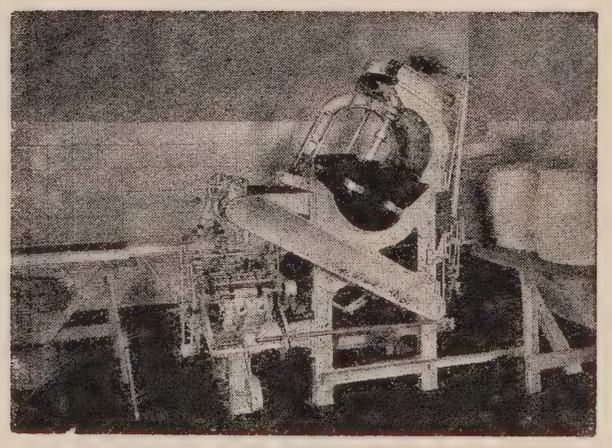
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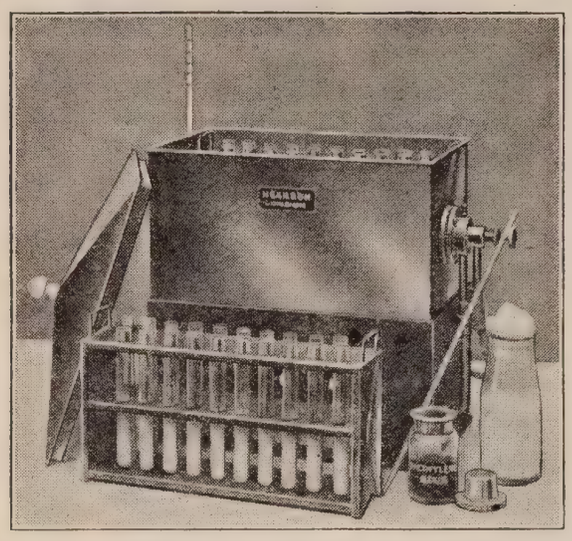
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MINUTE OF APPOINTMENT

In accordance with the provisions of the Agricultural Marketing Acts, 1931 to 1933, we hereby constitute :—

A. E. Cutforth, Esq., C.B.E., F.C.A.,

Professor A. W. Ashby, M.A.,

Sir Iain Colquhoun, Bart., D.S.O.,

Sir John Orr, D.S.O., M.C., M.A., M.D., D.Sc., F.R.S.,

and

Miss D. S. Tomkinson, O.B.E., M.A., J.P.,

as an Agricultural Marketing Reorganisation Commission for Great Britain and direct that it shall—

(*a*) consider the working of organised milk marketing in Great Britain under Milk Marketing Schemes and its incidence on production, distribution and consumption and make recommendations for further improvement;

(*b*) consider and report on the extent to which, and the manner in which, organisation could be facilitated by closer co-operation between the Marketing Boards concerned, or by the amalgamation of some or all of the Schemes, including any schemes at present under consideration, or by other adjustments, and prepare schemes for giving effect to any such adjustments;

(*c*) consider and report on the extent to which, and the manner in which, the organisation of milk marketing in Great Britain could be facilitated by closer co-operation between Milk Marketing Boards in Great Britain and the appropriate authorities in Northern Ireland.

We further appoint Mr. A. E. Cutforth, C.B.E., to be Chairman, Mr. H. J. Johns, M.B.E., of the Ministry of Agriculture and Fisheries, to be Secretary, and Mr. F. H. Keenlyside, of the Ministry of Agriculture and Fisheries, and Mr. J. C. Russell, of the Department of Agriculture for Scotland, to be Assistant Secretaries of the Commission.

(Signed) WALTER E. ELLIOT,
Minister of Agriculture and Fisheries.

(Signed) GODFREY P. COLLINS,
Secretary of State for Scotland.

11*th February*, 1935.

Report of the Reorganisation Commission for Milk for Great Britain

To The Right Honourable W. S. Morrison, M.C., K.C., M.P., Minister of Agriculture and Fisheries;

The Right Honourable Walter E. Elliot, M.C., M.P., His Majesty's Secretary of State for Scotland.

INTRODUCTION

Sirs,

We were appointed on 11th February, 1935, in accordance with the provisions of the Agricultural Marketing Acts, 1931 to 1933, as an Agricultural Marketing Reorganisation Commission for Great Britain, and directed:—

(*a*) to consider the working of organised milk marketing in Great Britain under milk marketing schemes and its incidence on production, distribution and consumption and to make recommendations for further improvement;

(*b*) to consider and report on the extent to which, and the manner in which, organisation could be facilitated by closer co-operation between the marketing Boards concerned, or by the amalgamation of some or all of the schemes, including any schemes at present under consideration, or by other adjustments, and to prepare schemes for giving effect to any such adjustments;

(*c*) to consider and report on the extent to which, and the manner in which, the organisation of milk marketing in Great Britain could be facilitated by closer co-operation between milk marketing Boards in Great Britain and the appropriate authorities in Northern Ireland.

We have held in all 80 formal meetings, in London, Edinburgh and Aberdeen, at many of which witnesses were heard on behalf of the various interests concerned with the milk industry. In addition we have held 44 informal meetings for the purpose of considering and discussing the different aspects of our investigations and proposals.

The witnesses who have appeared before us have included representatives of each of the four milk marketing Boards operating in Great Britain; of the promoters of schemes for other parts of Scotland; of organisations of agriculturists, wholesale and retail distributors (including producer-retailers), manufacturers and hauliers; of consumers' co-operative societies; of associations concerned with child welfare and with rural life; of hospitals; and of other organisations interested directly or indirectly in the milk industry. We have also had the help of a number of individuals, eminent in their respective spheres, on such subjects as the nutritional value of milk and the economics of milk production, as well

as on matters more directly affecting marketing organisation. Further, we have received and considered a great deal of written evidence. We wish to take this opportunity of expressing our deep indebtedness to the very many organisations and individuals who have spared no effort to assist us in our deliberations.

In order to inform ourselves regarding the question of co-operation with Northern Ireland, we visited Belfast and conferred with representatives of the Ministry of Agriculture for Northern Ireland and of the milk industry in that part of the United Kingdom; and the Government of Northern Ireland kindly attached to us a liaison officer, Mr. D. A. E. Harkness, who has rendered us valuable assistance.

In the early stages of our inquiries a special series of informal meetings was held in Edinburgh to discuss with those immediately concerned the differences that had arisen under the main Scottish milk marketing scheme, between producers in the east and producers in the west of the scheme area. We found that the difficulties were, in principle, such as are inherent in all pooling schemes and that it would be impracticable to separate the problems underlying them from the more general questions arising out of our terms of reference. Without making any pronouncement, therefore, at that time upon the submissions that were made at this series of meetings, we undertook to bear these Scottish difficulties in mind in our wider investigations.

Three general considerations have guided us throughout the course of our proceedings. The first is that, at our opening meeting, Ministers invited us to take the broadest view of our terms of reference and to look upon the subject matter of our inquiry as extending beyond the economics of milk marketing and embracing also those new problems of policy and administration which have arisen out of the schemes. We have been glad to accept this invitation, and to the best of our ability have acted upon it.

At the same time we have borne in mind, as the second consideration, that the agricultural marketing code is of recent origin and that there has not yet been time for the new system to attain to its full efficiency. In these circumstances we appreciated that it would be a dis-service to the industry and to the country if we were to advocate changes which were not clearly essential. The schemes may need modification in some respects; but producer organisation should provide a firm foundation for further development. In consequence we followed the principle that, in framing any adjustments that might seem necessary, the fullest possible use should be made of the present structure.

Thirdly, we have been impressed with the rapidly gathering public interest in nutritional problems—a development which has a special meaning for the milk industry. It has long been recognised that milk is unique as the most complete of all individual foodstuffs and the most necessary to the health and well-being of the rising generation. Recent expert investigations have confirmed

this view and, in doing so, have thrown light upon the deficiencies in the diet of a large proportion of the people, particularly of the poorer classes. Organised marketing can, and should, play an important part in assisting to fill these deficiencies. The public importance of the milk supply and the national need for increasing the consumption of liquid milk have been prominently in our minds throughout our inquiries and discussions.

The Report itself falls into four sections. Part I describes in general terms the origin of the schemes and their main features and gives some brief particulars of the quantities of milk dealt with under the schemes and of the prices charged to buyers and paid to producers. This Part, together with the statistical Appendix, leads to the analytical examination of the effects of the schemes which is undertaken in Part II. Part III is devoted to the study of certain fundamental principles connected with the schemes and the criticisms to which they have been subjected. Part IV contains our recommendations for the future of organised milk marketing. Though this order of reporting involves a certain amount of repetition, we believe it will have advantages of convenience.

The complications inseparable from the study of the provisions and principles of the four different milk marketing schemes already in existence have been intensified by the fact that each of these schemes is in active operation and, further, that each has been in force only two or three years. Developments are taking place from day to day ; and adjustments of the schemes themselves in a number of important respects have been either made or proposed since we were appointed. We have endeavoured to keep ourselves informed of the current position under each of the schemes and of actual and contemplated changes in the provisions of the schemes ; and this has naturally added to the magnitude of our task. Although it has been possible in some cases to include in the statistical tables appended to this Report figures relating to the first half of the 1935-36 milk year, i.e., from October, 1935, to March, 1936, our examination of the working of the schemes has necessarily been concerned almost entirely with the periods ending September, 1935.

The Minute of Appointment authorised us to prepare schemes for giving effect to such adjustments as appeared desirable for the purpose of securing co-operation between the Boards or the amalgamation of existing and proposed schemes. The main issues which our recommendations raise are, however, of such importance that they must be considered, in the first place, both by the industry and by the Government, as questions of principle. Furthermore, if certain of these proposals are accepted, legislation will be needed to implement them. In these circumstances, it appeared to us that the drafting of schemes should be left until it has been decided how far our proposals meet with immediate acceptance ; and therefore we have not prepared schemes to give effect to the changes recommended in the Report.

PART I.—THE MILK MARKETING SCHEMES

CHAPTER 1.—THE INCEPTION OF THE SCHEMES.

(i) The English Scheme.

The groundwork for the introduction of the English milk marketing scheme was prepared by the Reorganisation Commission which, under the chairmanship of Sir Edward Grigg, K.C.M.G., K.C.V.O., D.S.O., M.C., M.P., was appointed in April, 1932, in accordance with the provisions of the Agricultural Marketing Act, 1931, to prepare a scheme or schemes for regulating the marketing of milk in England and Wales. The Report* of that Commission, issued in January, 1933, reviewed the course of events in the industry up to that time and the conditions then prevailing, and outlined a plan of reorganisation. The Commission took the view that the situation required something more than could be achieved by organising the producing side of the industry alone. Accordingly, they not only recommended that a Central Producers' Board should be set up under the Agricultural Marketing Act on the lines of a draft scheme appended to their Report, but they also urged that there should be established, under new legislation, a statutory Dairymen's and Manufacturers' Board and, in addition, a Joint Milk Council composed of representatives of both these Boards together with three independent members.

This comprehensive plan of reorganisation could not have been implemented under existing legislation, but in any case it appears that producers preferred to proceed separately with the organisation of their own side of the industry. The National Farmers' Union prepared and submitted a scheme under the Agricultural Marketing Act, 1931, using as the basis the draft scheme published in the Commission's Report.

Submission of the scheme in March, 1933, was followed by a public inquiry into objections lodged and, after some modification, the scheme was approved by both Houses of Parliament in July, 1933, shortly after the Agricultural Marketing Act, 1933, had reached the statute book. The initial poll then taken showed that 96 per cent. of the votes, calculated both by number and by productive capacity of the registered producers voting, were in favour of its continuance, and accordingly, the scheme came into full operation on 6th October, 1933.

(ii) The Schemes in Scotland.

The main Scottish scheme.—The main Scottish milk marketing scheme had its origin in a different set of conditions from those which led up to the introduction of the English scheme. The difference resulted from the system of voluntary organisation among

* Economic Series No. 38.

producers that had been operating in Scotland for a few years previously. This voluntary movement started with the formation of the Scottish Milk Agency, which was set up to control the marketing of milk from the Glasgow milk shed and commenced operations in 1927. The weakness of the voluntary system, however, soon became apparent and, mainly because producers who remained outside were able to profit at the expense of the members, the Agency suffered a gradual decline in membership until, by 1931, it had lost most of its influence upon the Glasgow milk market. This, together with the fact that the Agricultural Marketing Bill was then on the point of receiving Royal Assent, prompted the Scottish Agricultural Organisation Society in July, 1931, to call a national conference of milk producers for the purpose of discussing the desirability of promoting a milk marketing scheme for Scotland under the new legislation. At this conference a committee was appointed to prepare a scheme which, it was originally intended, should embrace the whole of Scotland. But in the discussions that followed producers were not unanimously in favour of an all-Scottish scheme. Some sections of producers in the north of Scotland took the view that local organisation and administration would be preferable. Consequently a scheme was prepared for that part of Scotland lying between the Grampians and the border, including the counties of Angus, Perth, Stirling, Dunbarton and part of Argyll together with all the counties to the south.

This scheme was submitted in June, 1932, as " the Scottish Milk Marketing Scheme " and after the public inquiry into objections, which was held in November, the amended draft was approved by Parliament in May, 1933. Of the registered producers voting at the initial poll 77 per cent., with a productive capacity of 78 per cent., were in favour of the scheme, which accordingly came into full operation on 1st December, 1933.

The Aberdeen and District scheme.—Organised milk marketing in the Aberdeen area also originated from the co-operative efforts of producers which resulted in the formation of the Scottish Milk Agency in 1927. It began on the same voluntary basis, under the auspices of the Scottish Milk Agency, which extended the field of its operations to the Aberdeen area in 1928. At first the Aberdeen organisation functioned as a branch of the Scottish Agency, but later producers in the area decided to exercise their independent control and formed the Aberdeen and District Milk Agency as a separate organisation. The Aberdeen Agency proved more successful than the parent body and controlled the bulk of the milk sold in its area. But in order to consolidate the position, the committee of management of the Agency decided to take advantage of the statutory powers made available under the Agricultural Marketing Act, 1931, and prepared a scheme incorporating the principles and procedure which the Agency had evolved in the course of its development.

This scheme, which embraces the counties of Aberdeen and Kincardine, was submitted in February, 1933. A public inquiry was held in June, and the scheme, after modification, was approved by Parliament in March, 1934. Of the registered producers voting at the initial poll, 79 per cent., representing a productive capacity of 87 per cent., were in favour of the scheme, which became fully operative on 1st August, 1934.

The North of Scotland scheme.—Concurrently with the action taken by the Milk Agency in Aberdeen to promote its own scheme, milk producers in the counties of Inverness, Ross and Cromarty, Nairn, Sutherland and Caithness were making similar arrangements, and a scheme for these counties was submitted in June, 1933. The objections made to it were subsequently withdrawn, thus rendering a public inquiry unnecessary; and after modification in accordance with the conditions on which objections had been withdrawn, the scheme received the approval of Parliament in July, 1934. A favourable majority—73 per cent. of registered producers voting, with a productive capacity of 76 per cent.—was obtained at the initial poll, and the scheme came into full operation on 1st October, 1934.

Other areas in Scotland.—Milk producers elsewhere in Scotland, that is, in the counties of Moray, Banff, Orkney and Zetland and in certain parishes of Argyllshire, are not organised under a marketing scheme. A draft scheme has, however, been prepared and submitted for Moray and Banff on the general lines of the North of Scotland and Aberdeen schemes. Similarly, a draft scheme has been submitted for that part of Argyllshire outside the area of the main Scottish scheme, but final consideration of its provisions has been deferred. This latter scheme provides for the exemption from registration of any producer who does not either manufacture milk into cheese at his farm or sell milk to a manufacturer of milk products, and is designed for the purpose of enabling farm cheese makers within the area to qualify for the advances payable to milk marketing boards by the Exchequer under the Milk Acts, 1934 and 1936,* in respect of milk converted into cheese on farms.

CHAPTER 2.—THE PRINCIPLES OF THE MILK MARKETING SCHEMES.

(i) General.

The milk marketing schemes operating in Great Britain† have certain fundamental features common to all. Each scheme possesses the force of statutory authority; each establishes a self-governing organisation of producers, initiated by them and subject to amendment or revocation by them; and each incorporates an

* The provisions of these Acts are described in Appendix I, page 295.

† Our examination of the working of organised milk marketing has, in accordance with the terms of reference, been confined to the schemes operating in England and Wales and in Scotland. The organisation of milk marketing in Northern Ireland, however, is of interest for purposes of comparison, and is described in Appendix II, page 297.

element of compulsion by which all producers in its area who sell the regulated product are brought within its jurisdiction. These common features follow from the provisions of the Agricultural Marketing Acts, 1931 to 1933, the series of enabling measures from which these schemes derive their form and powers.

All the schemes are single commodity schemes covering the marketing of cows' milk; none of them includes as the " regulated product " any form of milk product.

Administration of each scheme is controlled by a Board composed mainly of the elected representatives of registered producers. The provisions of each scheme are binding on all registered producers who are not specifically exempted either by the scheme itself or by the Board in exercise of the powers given to it by the scheme. No milk producer who is not exempted can sell milk unless he is registered, and a registered producer can sell milk only in compliance with the conditions laid down by his Board.

(ii) The English Milk Marketing Scheme.

The principle of combined selling.—The Reorganisation Commission of 1932 came to the conclusion that the prime object of reorganisation in the milk-producing industry must be to strengthen the position of producers. The principal means by which the scheme has endeavoured to attain this object is by the substitution of combined selling for individual selling. With some minor exceptions mentioned below, the Board is a party to all wholesale contracts for the sale of milk by producers, and no contract can be made except on conditions laid down by the Board. This ensures that in negotiating with buyers the producers' representatives control substantially all the milk supplies. Individual producers cannot arrange contracts on terms less favourable than those negotiated and so weaken the position of their fellow producers. The centralised control also helps to ensure that, under a system which provides for milk to be sold at different prices for different purposes, the appropriate price is paid. Previously there was a danger that milk bought at a low price for manufacture might be re-sold in the higher-priced liquid milk market.

Those producers who sell by retail direct to consumers (i.e. producer-retailers) are, of course, not required to sell through the Board. They must, however, take out licences and make contributions at much the same rates as those which are charged on wholesale sales of liquid milk.

The Board's control over milk supplies is not quite complete. The scheme at present exempts producers (not being producer-retailers) who keep not more than four milch cows, and also sales of milk by a producer to any of his servants for consumption in that servant's household. Further, paragraph 53 of the scheme gives

the Board power to exempt " producers and sales of such classes or descriptions . . . as may from time to time be determined ". Under this paragraph sales of Certified and of Grade " A " (T.T.) milk* have been exempted.

Producers' prices.—Before the introduction of the scheme the price obtainable by a producer for milk depended upon whether it could be sold to a liquid milk buyer or had to be disposed of for manufacturing purposes. The liquid market was definitely the more remunerative, and consequently producers were anxious to sell into it. The results of these conditions have been described in the Report of the Grigg Commission.

Under the scheme the returns from the sale of milk into different markets at different prices are pooled and shared on a " per gallon " basis, with the effect that producers selling mainly into the liquid milk market contribute towards the price paid to producers who sell mainly for manufacture. The pooling arrangements, however, do not provide for a single pool for the whole country, as it was felt that the immediate introduction of a national pool would cause undue hardship to districts in which a relatively high proportion of the milk is sold for the liquid market. England and Wales is divided by the scheme into eleven regions, in each of which a separate pool is operated.

In order to prevent too large a variation between the pool prices paid in the different regions, a levy is made on every gallon of milk sold into the liquid milk market, and the proceeds are paid into a fund known as the " inter-regional compensation fund," which is used to raise the pool price in those regions where the proportion of milk sold for manufacture is relatively high.

Quality and special service premiums.—While the price received by the individual producer is based on the pool price for his region, he may qualify for premiums for special services such as level delivery or for the attainment of the " Accredited " quality standard.

Every producer who is able to obtain a Grade " A " licence under the Milk (Special Designations) Order is entitled to be registered on the Accredited Roll and to receive a bonus of 1d. per gallon out of the general fund.

Premiums are payable for level delivery, but a producer can only obtain such a premium if he can secure a buyer who will contract to pay it. Producer-retailers qualify for the premium on their retail sales provided that they deal with their own surplus or, if they sell any milk on contract, that their contracts are only for level

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* To avoid confusion we have thought it desirable to continue to use the grade names which have been current throughout practically the whole period of our investigations.

deliveries. In practice any sum so earned by a producer-retailer is deducted from the contribution payable to the Board on his sales.

For other special services, or for compliance with special conditions, producers may obtain additional premiums, but arrangements for the payment of these depend on individual negotiation between seller and buyer.

Transport charges.—It has always been, and still is, the practice for the producer to be responsible for the delivery of milk to the buyer and to bear the cost of transport. Where milk is sold direct to a buyer for the liquid milk market, the producer either arranges the transport himself or the buyer undertakes it for an agreed charge. Where milk is sold to factories or to depots special transport charges, which are described in Appendix III, are payable by producers.

Buying prices.—The Board is given power by the scheme to determine the " prices at, below, or above which . . . milk or any description or quantity of milk may be sold " by any registered producer. Wholesale buyers of milk for liquid consumption are required to pay the prescribed contract price. Milk used for manufacture is nominally bought at the same price, but rebates are allowed which result in the prices actually paid by buyers of manufacturing milk* being much lower and varying according to the use to which the milk is put.

Before fixing the prices and other terms of the contract the Board is required under the scheme to consult with the representatives of the wholesale buyers. For the first year provision was also made for prices to be the subject of consultation between the Board, the buyers and three independent " Appointed Persons ", and for the prices to be fixed by the Appointed Persons in the event of disagreement.

The scheme provides that the prices charged to distributors may vary in accordance with the region in which the milk is produced, or alternatively, the region in which it is consumed. Since the end of the first year, however, the selling price has been the same for all regions.

The prices payable by consumers of liquid milk are governed by re-sale clauses in the contracts and by the terms of the licences issued to producer-retailers.

Control of production.—The Board is not given power under the scheme to exercise direct control over the volume of production, or

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* The terms " liquid milk " and " manufacturing milk " are used throughout this Report as meaning, respectively, milk sold for liquid consumption and milk sold for manufacture.

even over the volume of sales. In practice, however, the prices fixed by the Board must be the principal factor controlling both sales and production, though it is open to it to exert further control by means of quality standards.

Distribution and manufacture.—Section 12 of the Milk Act, 1934, empowers each of the milk marketing Boards to determine the places to which registered producers may sell or deliver or consign milk. The scheme gives the Board no direct control over the later stages of distribution, but in fact it is able to exercise very considerable powers through the terms of the contracts on which the distributors buy milk, including the important re-sale clauses which govern retail prices.

The position of manufacturers in relation to the Board is similar to that of distributors in the matter of the prices at which they purchase milk. Manufacturers are represented on the Central Milk Distributive Committee, which is the negotiating body for all milk contracts with the Board. No attempt is made, however, in the contract to control prices of manufactured products, and in this respect the manufacturer is less closely controlled than the distributor.

Under a special form of contract farm cheese makers who agree to keep their milk on the farm receive a subsidy which is made up partly from the Government advance under the Milk Acts and partly from an additional allowance from the general funds of the Board. The intention of these arrangements was, no doubt, to maintain cheese making on farms and to decrease the volume of surplus milk which the Board was called upon to deal with. There is no similar arrangement for farm butter makers.

Constitution of the Board.—The Board consists of twelve regional members, three special members and two persons co-opted after consultation with the Market Supply Committee. Regional members are elected by the registered producers in the several regions. It is provided that each member shall hold office for three years, and that four shall come up for election each year in rotation. Each region elects one member, except the North Western, which elects two members. The three special members are elected by registered producers in general meeting. Elections (after 1937) are to be held annually, the members retiring in rotation after holding office for three years. Elections are held at meetings of registered producers, and proxy voting is allowed.

The Board thus consists of 17 persons; but the scheme provides, as required by the Act of 1933, that " the Board shall appoint . . . an executive committee consisting of not more than seven members . . . and the Board shall delegate to the executive committee all their functions under this scheme " except certain specifically mentioned functions. For various reasons the Board has made but

little use of the executive committee. Day-to-day administration is in the hands of the Chairman and Vice-Chairman.

Proposed amendments to the scheme.—The English Board has submitted a number of amendments which it is proposed should be made to the scheme. It had originally been intended to make some further amendments also, but the Board subsequently decided to reserve action on certain points until this Report was available. The most important of the amendments recently submitted to registered producers relate to transport charges, to the contributions of producer-retailers, to the exemption of small producers, and to the conditions on which a poll for the revocation of the scheme may be demanded.

It is proposed to pool within each region transport charges on all milk sold to depots or to factories, and thus to avoid some of the complexities and anomalies which have arisen under the present arrangements. The proposals in regard to producer-retailers' contributions are designed to reduce the amount of the contributions and to eliminate monthly and seasonal variations in the amount. As regards exemptions, it is proposed to cancel the general exemption of producers owning not more than four milch cows. The amendment regarding polls on the question of revocation of the scheme provides for raising the required number of producers who may demand a poll from 500 to one-twentieth of the total number of registered producers, representing at least one-twentieth of their total productive capacity. There are also a number of other suggested amendments, but many of them are formal in character and none raises such important issues as the four mentioned above.

(iii) The Main Scottish Milk Marketing Scheme.

The main Scottish milk marketing scheme, which applies to that part of Scotland south of the Grampians with the exception of certain parishes of Argyll, is based on the same fundamental principle as the English scheme—that of the equalisation amongst producers of the proceeds of sales in the liquid and manufacturing markets by means of a pooling system. The main point of difference from the English scheme is that there is a single pool for the area of the scheme instead of a number of regional pools.

Under the Scottish scheme there is, in addition to the producers who sell under ordinary wholesale contracts and producer-retailers, a further special class, known as producer-wholesalers. This class consists of those who are licensed by the Board to sell milk to distributors who, because their total daily purchases do not exceed a specified quantity (originally 80 gallons, but since reduced to 20 gallons), are charged a wholesale price in excess of the " standard price " payable by other distributors. Producer-retailers must, as

under the English scheme, hold a licence from the Board. The various classes are not mutually exclusive; a producer-retailer, for instance, may sell some milk to the Board, or a producer may be a producer-wholesaler in respect of some contracts, though not of all. Producers who sell milk only in small quantities to persons in their employment or to neighbours for their own consumption are entitled to exemption from the provisions of the scheme; and by resolution of the Board this exemption has been applied to all producers who sell not more than three gallons daily to not more than six customers. Producer-retailers, producer-wholesalers and producers of Certified milk make their own arrangements for sale and payment, but they must conform to the prices fixed by the Board and pay contributions to the pool.

The Board's contracts.—Before fixing prices and the terms on which milk may be sold, the Board consults the Permanent Joint Committee provided for in the scheme, on which are represented the interests of distributors, manufacturers and hauliers, as well as of the Board itself. The agreement constituting this Committee provides for a consultant to be called into the negotiations in the event of failure to reach agreement, but the duties of the consultant are advisory only.

The Board fixes the prices payable by distributors and manufacturers. The minimum retail price is also fixed and is uniform throughout the scheme area, except for special prices for bulk sales to hotels and institutions. Prices are also prescribed for Certified and Grade " A " (T.T.) milk. Prices for these grades, sold as such, are not controlled in England.

Producers' prices.—The pool structure under the main Scottish scheme is simpler than that in England and Wales. All proceeds from the sale of milk through the Board, together with the contributions of producer-retailers, producer-wholesalers and producers of Certified milk and all other receipts of the Board, are paid into one general pool. The Board allocates to producers any special premiums earned by them, deducts its expenses, and distributes the balance amongst producers in proportion to the quantity of milk supplied by them.

The Scottish Board's contracts have in each period allowed for the earning of a premium for level delivery. In addition, an amendment of the scheme by the Secretary of State for Scotland provides for the payment of a special bonus out of the pool funds to those producers who undertake not to increase their monthly sales to or through the Board by more than 10 per cent. over their sales in December, 1933.

There is no Accredited milk scheme in the main Scottish area, but producers of Certified and Grade " A " (T.T.) milk obtain higher prices than other producers, and Certified milk producers pay contributions at the specially low rate of ½d. per gallon.

Haulage.—The pool price payable to each producer is subject to an individual deduction in respect of transport. The deduction is made according to the distance of the producer's farm from the nearest of a number of prescribed haulage centres, irrespective of the actual distance which the producer's milk is carried. If milk is consigned by road, it must be carried by a contractor approved by the Board. Where a producer carries his own milk, he pays the " standard haulage rate " to the Board, and the Board pays him at the same rate as any other approved haulier. The profits made in operating the haulage fund are credited to the general pool.

Control over production.—As under the English scheme, the Board has no power to control production except indirectly through price and through quality standards. A certain degree of production control is also implied in the Secretary of State's amendment by which, as explained above, a bonus is paid to producers who limit their sales.

Distribution and manufacture.—The scheme empowered the Board to approve or to alter the methods of disposal of milk used by producers before the scheme came into effect; and further power to control the movement of milk sold by registered producers is given to the Board by the Milk Act, 1934. The Board's control over subsequent stages of distribution is mainly defined in the terms of the contract. These include the minimum prices at which distributors may buy and sell their milk and the premiums they must pay for special services.

The Scottish Board is more directly interested in manufacture than is the English Board. Not only is a greater proportion of its milk manufactured, but the Board itself is a manufacturer on a very large scale. The extent of manufacture in the area was considerably increased by reason of an agreement with the English Board under which the Scottish Board has reduced its consignments of liquid milk to England in return for a specified sum as compensation. The milk thus kept off the English market has to be manufactured in Scotland.

The Scottish, like the English, Board has found it useful to make special arrangements to compensate farm cheese makers who undertake to retain their milk on the farm.

Constitution of the Board.—The Board consists of eight members elected by a Selection Committee and two members co-opted by the elected members after consultation with the Market Supply Committee. The Selection Committee consists of not more than fifty registered producers appointed at the annual general meeting. A candidate for election to the Selection Committee must be nominated by at least ten registered producers. Each year one-fourth of the elected members of the Board retire, and the Selection Committee fills the vacancies.

Amendments to the scheme.—The main Scottish scheme has undergone some important amendments since its inauguration. Producers in the eastern counties complained that their returns were diminished by the operation of the scheme, and there was considerable discontent in that part of the scheme area. A number of questions were remitted to the Committee of Investigation for Scotland, the most important of which concerned the position of level producers, haulage charges and the possibility of regional prices within the scheme. The changes that were made in the scheme in consequence are described in Chapter 6.

(iv) The Aberdeen and District Milk Marketing Scheme.

The provisions of the Aberdeen and District milk marketing scheme are based on those of the main Scottish scheme and on the previously existing co-operative marketing arrangements of the Aberdeen and District Milk Agency. Sales in small quantities to employees and neighbours for their own consumption are exempt from the scheme. The Board first interpreted a " small quantity " for this purpose as being not more than two gallons per day to not more than six customers; but in November, 1935, the exemption limits were amended to apply only to sales of not more than one gallon daily to not more than four customers. The effect of this exemption is to exclude the majority of producers in the outlying districts from the scope of the scheme. Apart from these exemptions and from sales by producer-retailers and producers of Certified milk, all sales by registered producers must be made to or through the Board. Producer-retailers and producers of Certified milk make their own sales arrangements, but they must furnish monthly returns to the Board and must pay such contribution per cow as the Board may determine.

The Board determines wholesale and retail prices for milk after consultation with a Joint Committee, representing the Board, distributors and haulage contractors, set up under the scheme.

There is an understanding between the three Scottish Boards by which they do not compete in each other's liquid markets, but the Aberdeen Board sells some 2,500-5,000 gallons of liquid milk daily through a selling agent in London. Any additional surplus milk is either manufactured at the creamery taken over by the Board from the Aberdeen and District Milk Agency or sold for manufacture.

Basic quantities.—The principal point of difference between the Aberdeen scheme and the main Scottish scheme lies in the allocation of " basic quantities " to producers who sell by wholesale. A " basic quantity " is determined for each producer by reference to his average sales during the three months November to January immediately preceding the date of the determination. In respect of his basic quantity each producer receives a price per gallon which

is equal to the standard price payable by distributors less a levy deduction and, of course, haulage charges. The levy deduction covers the costs of administering the scheme and any loss suffered on the sale of basic quantity milk for manufacture. If a producer sells milk in excess of his basic quantity, he is paid for it at the average price realised for such surplus milk. Since the beginning of the scheme the pool price for the basic quantity has been approximately double the pool price for the surplus.

Constitution of the Board.—The constitution of the Aberdeen Board is unusual; it consists of the members for the time being of the Committee of Management of the Aberdeen and District Milk Agency, which was the body responsible for the promotion of the scheme, together with four persons elected at a general meeting by registered producers who are not members of the Agency, and two persons co-opted after consultation with the Market Supply Committee. The Chairman is appointed by the Board, and he need not be a member of the Board prior to his appointment, or a milk producer. We are informed that the number of members of the Agency's Committee of Management is at present twelve.

(v) The North of Scotland Milk Marketing Scheme.

The North of Scotland scheme is very similar to that for Aberdeen and District. The " basic quantity " provisions, however, extend to producer-retailers, and only producers of Certified and Grade " A " (T.T.) milk are exempt from them. The " basic quantity " of each producer is determined by reference to his average sales during the months September to December immediately preceding the date of the determination. Producers of graded milks may arrange for their own sales, but they pay a levy and are entitled to receive payment at the ordinary rate for any milk which they sell to or through the Board. Sales in small quantities to employees and neighbours for their own consumption are exempt from the scheme. It is understood that the Board has interpreted a " small quantity " as being sales of not more than three gallons per day to not more than five customers. This exemption has the effect of removing from the scope of the scheme over 95 per cent. of the milk producers in the area.

The North of Scotland Board has power under the scheme to determine directly the quantity of milk (other than Certified or Grade " A " (T.T.)) that may be sold by any registered producer. It is understood that there is no intention to use these powers at present. No other milk marketing Board in Great Britain possesses this power of direct sales control.

The Board consists of five persons elected by registered producers at each annual general meeting and two persons co-opted after consultation with the Market Supply Committee.

CHAPTER 3.—NUMBERS OF PRODUCERS AND VOLUME OF SALES.

(i) Registered Producers.

Total numbers.—Towards the end of 1935* there were approximately 175,000 registered producers of milk in Great Britain, of whom over 165,000 (94 per cent. of the total), were registered under the English scheme, some 8,000 (5 per cent.) under the main Scottish scheme, 800 under the Aberdeen scheme and 400 under the North of Scotland scheme (less than 1 per cent. each).

These figures, it should be noted, relate to the numbers of producers registered, not to the numbers of individuals engaged in milk production and not, strictly speaking, to the numbers actually selling milk. The figures for the two larger schemes may still include a number of producers who are entitled to exemption; and while it seems probable that the great majority of milk producers in England and Wales and in the area of the main Scottish scheme are registered under the schemes, a large percentage of small producers in the Aberdeen area, and a still larger percentage in the North of Scotland, are exempt from registration. A rough comparison of the productive capacity of the four areas can be made by reference to their cow populations; the official estimates show that 87 per cent. of the total cow population of the four areas is maintained in England and Wales, 10 per cent. in the area of the main Scottish scheme, and 3 per cent. in the areas of the Aberdeen and North of Scotland schemes jointly.

In December, 1933, when the English scheme had been operating only two months, registered producers in England and Wales numbered nearly 140,000. The increase of nearly 20 per cent. in less than two years is attributable largely to the withdrawal of the exemption originally granted to small producer-retailers. But in addition many producers who did not register in the early days have begun to sell milk off the farm since the scheme came into operation, because they have found it more profitable to dispose of the milk in that way than to manufacture it on the farm.

There has been relatively little change in the numbers of producers registered under each of the three Scottish schemes since the early months of their operation.

Classification of producers.—It is not possible to sub-divide the total number of producers registered under each scheme into classes according to the method by which they dispose of their milk, because many of them use two or more of the available channels of disposal. A producer may, for example, make a wholesale contract requiring level delivery and use his surplus in the manufacture of cheese on the farm; or he may have a retail round and sell the balance on a wholesale contract. In fact, producer-retailers in

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* More detailed figures relating to the subject matter of this Chapter will be found in Tables 29 to 39 on pages 306 to 322.

England and Wales as a whole sell almost as much milk on wholesale contracts as they sell by retail. The following Table gives some indication, however, of the numbers of producers using each of the various methods of disposal under the four schemes operating in Great Britain :—

TABLE 1.—Numbers of Registered Producers, Producer-Wholesalers, Producer-Retailers and Registered Farm Cheese Makers, 1935.

Scheme.	Total No. of registered producers.	No. of registered producers selling on wholesale contracts.	No. of producer-wholesalers.	No. of producer-retailers.	No. of registered farm cheese makers.*
England and Wales (September)	165,363	79,267	—	65,744	820
Scotland (main area) (December)	8,202	5,085	774	2,427	404
Aberdeen & District (September)	805	486	—	406	—
North of Scotland (September)	393	127	—	255	—

* The numbers of farm cheese makers given are those for the contract year 1934–35.

Producers selling on wholesale contract.—In England and Wales there was a steady increase in the number of wholesale contracts made under the scheme during the first two years. The increase between December, 1933, and September, 1935, amounted to nearly 14 per cent. As most of the English producers selling milk by wholesale do so under a single contract, there has probably been a comparable increase in the number of producers selling under the Board's contracts. In the case of Scotland we have not been able, with the statistics in our possession, to separate producers selling under wholesale contracts from other classes of producers during the earlier period, and it is not possible, therefore, to show what changes have taken place.

Producer-retailers.—Producer-retailers constitute some 40 per cent. of the total number of registered producers under the English scheme, 30 per cent. under the main Scottish scheme, 50 per cent. under the Aberdeen scheme and 65 per cent. under the North of Scotland scheme. Under each of the Scottish schemes, however, the Board has exempted producers selling small quantities of milk to a limited number of customers. If these exemptions were withdrawn there would be a very large increase in the proportion of producer-retailers, especially in the North of Scotland and the Aberdeen areas.

When the English scheme first came into operation only some 34 per cent. of producers were licensed to sell milk by retail. The increase that has taken place since has been due mainly to the withdrawal of the exemption of producers selling less than one gallon a day by retail. Under each of the Scottish schemes there has been no significant change in the numbers of registered producers who are licensed to sell milk by retail.

Producer-wholesalers.—Producer-wholesalers* form a class found only under the main Scottish scheme. Their numbers increased between November, 1934, and November, 1935, by some 30 per cent., but these producers still comprise rather less than one-tenth of the whole. The North of Scotland scheme provides for the existence of a class of producer-wholesalers, but practical effect has not been given to this provision.

Registered farm cheese makers.—Registered farm cheese makers declined in numbers both in England and in the main Scottish area during the second year of the operation of the schemes owing to the low prices obtainable for cheese and the relatively more profitable outlet for milk sold through the Boards. The more favourable terms since offered† have caused some increase in the numbers in England. There are no registered farm cheese makers under either the Aberdeen or the North of Scotland scheme.

Graded milk producers.—At the end of October, 1935, 401 producers under the main Scottish scheme, 8 under the Aberdeen and District scheme and 11 under the North of Scotland scheme held licences for the sale of Certified and Grade " A " (T.T.) milk.

The number of Accredited milk producers in England and Wales has increased rapidly since the roll was established in May, 1935. A year later they comprised some 10 per cent. of the total number of registered producers, responsible for about one-third of the total output of milk sold under the scheme. There is no similar scheme operating in Scotland, but we understand that a very large proportion of the milk sold there is of Grade " A " or higher quality.

(ii) Quantities of Milk Sold.

Total sales.—Total sales of milk under the four schemes for the year October, 1934—September, 1935, including all sales under contract, sales by producer-retailers and sales by graded milk producers under the Scottish schemes, amounted to some 1,084 million gallons, of which 746 million gallons were sold into the liquid milk market and 338 million gallons for manufacture. If there be added farm cheese milk on which repayable advances and grants from the Boards were paid, the total quantities are 1,107 million gallons, of which 361 million gallons, i.e., 33 per cent., were either sold for manufacture or made into cheese on the farms.

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* See page 82. † See page 99.

TABLE 2.—Sales of Milk, October, 1934—September, 1935.

Scheme.	Million gallons.	Percentage of total sales.
England and Wales	981	88·6
Scotland (main area)	116	10·5
Aberdeen and District ...	8	0·7
North of Scotland	2	0·2
Total	1,107	100·0

The figure for the total quantity sold is much lower than the provisional official estimate (1,570 million gallons in 1934-35) of the quantity of milk sold off farms in Great Britain. There are several factors which help to account for this difference; for example, the area covered by the schemes excludes some parts of Scotland; many small producers, selling in the aggregate a considerable quantity of milk, are exempt from the schemes; sales of Certified and Grade "A" (T.T.) milk in England are similarly exempt; and there may be some appreciable under-estimate of the actual quantities sold by producer-retailers.

Classification of sales.—The following Table shows for each of the schemes the volume of milk sold under wholesale contracts, sold retail by producer-retailers, and used in the manufacture of farm cheese during 1934-35 :—

TABLE 3.—Disposal of Milk under each Scheme, October, 1934—September, 1935.

(Thousands of gallons.)

Scheme.	Total quantities.	Contract sales.	Licensed producer sales.*	Farm cheese milk.
England and Wales ...	980,960	853,706	113,249	14,005
Scotland (main area)...	115,665	89,277	17,095	9,293
Aberdeen & District ...	8,280	6,355	1,925	—
North of Scotland ...	1,897	865	1,032	—
Total	1,106,802	950,203	133,301	23,298

* Consisting of sales by licensed producer - retailers throughout Great Britain and also sales by producer-wholesalers and producers of Certified and Grade "A" (T.T.) milk in Scotland.

Producer-retailer sales.—In England and Wales sales by licensed producer-retailers amounted in the first year to some 17 per cent. of the total quantity sold for liquid consumption under the scheme; the corresponding figure for the first ten months of the main Scottish scheme was approximately 29 per cent. In the second year the percentages of sales by producer-retailers were, in England, again 17 per cent. and, in the main Scottish area, 24 per cent. For the first complete year of the Aberdeen and North of Scotland

schemes, the corresponding proportions were 26 per cent. and 58 per cent. respectively.

Farm cheese milk.—Plans for recompensing producers who retained their milk and manufactured it into cheese on the farm came into operation in the main Scottish area in February, 1934, and in England and Wales in April, 1934. From these dates until the end of September, 1934, nearly 19 million gallons in England and some 10 million gallons in the area of the main Scottish scheme were manufactured into cheese on farms with financial assistance from the Boards. The quantity of milk converted into cheese declined in the second year of the schemes in England and in Scotland, the gallonages being some 14 million in England and 9 million in Scotland for the whole year.

(iii) Utilisation of Milk Sold.

Milk is produced in Great Britain primarily for liquid consumption, but the surplus over the requirements of the liquid milk market is sold at much lower prices for manufacture. Since the demand for milk for liquid consumption is regular throughout the year and supplies are heavier in summer than in winter, the quantity used for manufacture varies seasonally. Moreover, since the quantity used for liquid consumption has increased less rapidly than supplies, the annual quantity that has to be sold for manufacture has increased. The following Table shows for the year ended September, 1935, in relation to each of the four schemes, the quantity sold into the liquid milk market and the quantities sold for manufacture into the principal milk products :—

TABLE 4.—Utilisation of Milk under each Scheme during the Year October, 1934—September, 1935.

(Thousands of gallons.)

Scheme.	Liquid.	Manufacturing.	Analysis of Manufacturing Milk.				
			Cheese.*	Butter.	Condensed milk.	Fresh cream.	Other products.
England & Wales	665,265	315,695	106,636	83,717	57,672	41,348	26,322
Scotland (main area)	71,051	44,614	22,356	4,982	2,806	12,081	2,389
Aberdeen & District	7,449	831	121	264	—	382	64
North of Scotland	1,765	132	21	33	—	78	—
Total	745,530	361,272	129,134	88,996	60,478	53,889	28,775

* Including farm cheese.

Sales for liquid consumption.—The figures given above for sales into the liquid milk market include milk sold by producer-retailers and milk sold under the Milk-in-Schools schemes, as well as milk sold under the usual wholesale contracts. In the second year of the schemes the quantity sold for liquid consumption in England and Wales and in the main Scottish area increased over the previous year's figures by about 5 per cent. and 4 per cent. respectively, mainly due to the inclusion of milk sold under the Milk-in-Schools arrangements. It is not possible to make a similar comparison in relation to the areas of the other two schemes.

The sales of liquid milk under the three schemes in Scotland include in each case some milk sold into England. Although arrangements were made by the English Board and the main Scottish Board for most of the milk formerly sold over the border to be retained and manufactured in Scotland on terms agreed between them, some 3 or 4 per cent. of the total sales under the main Scottish scheme still represents milk sold into England. No less than 17 per cent. of all the milk sold under the Aberdeen scheme comes to England, but the corresponding figure for the North of Scotland is only about $2\frac{1}{2}$ per cent.

Sales for manufacture.—As compared with the first year of the scheme, the total quantity of milk sold for manufacture (including milk made into cheese on the farm) increased in England and Wales during the second year by 49 per cent. and in the area of the main Scottish scheme by 16 per cent. To put the matter another way, three-quarters of the increase in the total quantity of milk sold in England and Wales, and also in the main Scottish area, has been used in manufacture. Under the Aberdeen and the North of Scotland schemes the quantity of milk sold for manufacture in 1934-35 amounted to about 10 and 7 per cent. respectively of the total sales.

In England and Wales the most important manufactured products from the point of view of the quantity of milk absorbed are cheese (including farm cheese), butter, condensed milk and fresh cream, which accounted in the second year for some 34 per cent., 27 per cent., 18 per cent., and 13 per cent. respectively of the total of manufacturing milk. In the main Scottish area the three main products, with the corresponding proportions, are cheese, 50 per cent.; fresh cream, 27 per cent.; and butter, 11 per cent. Cream is the main product into which milk is manufactured in the areas of the Aberdeen and the North of Scotland schemes. Both in England and Wales and in Scotland there was an increase in the proportion of milk used in making butter during the second year of the schemes.

In England the Board has hitherto manufactured relatively little milk in its own factories, but in the main Scottish area one-half of the milk sold off the farms for manufacture in 1934-35 was converted into products in factories owned by the Board.

CHAPTER 4.—PRICES UNDER THE SCHEMES.

(i) The Determination of Prices.

Under each of the schemes the Board has power, subject to the conditions described later, to determine the prices at which milk may be sold by registered producers. These sales include wholesale sales, whether for liquid consumption or for manufacture, and also retail sales by producers. In addition the Boards are similarly empowered to determine the terms of contracts between producers and buyers and thus indirectly to control the prices at which milk may be re-sold at subsequent stages. These powers have been exercised by the Boards in all the contracts. The prices returned to producers are in all cases determined on a pool basis. In England and Wales there are a number of regional pools; in the main area of Scotland there is a single pool; and in the Aberdeen and North of Scotland areas the operation of the " basic quantity " plan results in two pools at different levels of prices.

Under the English scheme the power of the Board to fix the prices at which milk may be sold by registered producers was qualified during the first year by a requirement that, before fixing prices, the Board should consult such persons as it considered best qualified to represent wholesale buyers of milk, together with three independent persons appointed for the purpose by the Minister; and it was provided that if, during that period, the Board was unable to agree with the purchasers' representatives, the prices were to be fixed by the three " Appointed Persons ". The prices prescribed by the Board for the first three contract periods, covering the two years October, 1933, to September, 1935, were determined under these conditions. The Board is also under permanent obligation under the scheme to consult purchasers' representatives before prescribing terms of contracts.

For the first two contract periods, covering between them the first year of the scheme, the English Board was unable to agree with the purchasers' representatives on prices, and they were accordingly fixed by the three Appointed Persons on both occasions. For the third contract period, covering the year October, 1934, to September, 1935, the Board was able to reach agreement with the buyers, but on terms which included a rise in the price payable to the Board for milk for liquid consumption and also an increase in the distributor's margin. Thus both parties to the agreement made gains at the expense of the consumer.

The contract for 1935-36 was prescribed by the Board under different conditions, since the temporary powers of the Appointed Persons had come to an end. Under the terms originally prescribed by the Board for this period the average buying price was raised and, since no alteration was made in minimum retail prices, the distributor's nominal margin was reduced. The distributors refused to sign contracts on these terms; but after consultation with the Minister, an agreement was reached by which the matter

was referred to the Committee of Investigation and the contracts were signed with a proviso to the effect that the Board would make any alteration that the Minister might order or request after considering the Report of the Committee of Investigation and that the buyers might then either continue the contracts or terminate them. The Report of the Committee was published in May, 1936, and the Minister's decision followed the recommendation made in the Report by reducing the buying price by 1d. per gallon in each of three months.

The terms of the main Scottish scheme provide for the determination by the Board of the prices at which milk may be sold by registered producers without the specific conditions as to consultation imposed on the English Board which are described above. The scheme provides, however, that for the purpose of facilitating the determination of certain matters a Joint Committee should be set up, representative of the Board, distributors of milk, manufacturers of milk products and haulage contractors. One of the functions of the Permanent Joint Committee established under this provision is to negotiate on prices and conditions of sale. The agreement between the Board and the other interests under which the Committee is constituted provides that a consultant shall be called into the negotiations in the event of disagreement between the parties. The services of this consultant were used by the Committee in the negotiation of the first, third and fourth (for 1935-36) contracts; but the parties to the negotiations are not bound by the findings of the consultant and the Board did not, in fact, act upon his recommendations in respect of the 1935-36 contract period. The buyers complained of the Board's action, and the matter was referred to the Committee of Investigation for Scotland. The Committee recommended a scale of prices that would have allowed a slightly wider margin to the distributors, but the Secretary of State decided, for reasons that have already been made public, to take no action.

Under the Aberdeen and North of Scotland schemes the Boards have similar powers to fix prices, and similar provision is made for the establishment of Joint Committees representing the different interests. There is, however, no provision for calling in a consultant. In the event of disagreement on the Joint Committee, each Board is able to prescribe prices and contract terms.

The prices prescribed by the Aberdeen Board for the period 1st January, 1935, to 31st October, 1935, were, with other matters, the subject of a complaint which was referred to the Committee of Investigation for Scotland. The substance of the complaint in this respect was that the increased prices payable by buyers, coupled with the retention of the old retail price of 2s. per gallon, resulted in a decrease of 1d. per gallon in the distributive margin. The Committee found that the action of the Board in increasing the standard price was contrary to the interests of the complainants, but

they did not find that such action was not in the public interest. No action was taken by the Secretary of State on this part of the complaint.

(ii) Wholesale Buying Prices.

Milk for liquid consumption.—The wholesale prices which the different Boards have fixed for the sale by producers of milk for liquid consumption for each of the milk years since the schemes came into operation are shown in the following Table* :—

TABLE 5.—Wholesale Prices Payable to the Boards for Milk for Liquid Consumption.

(Unweighted average of monthly prices.)

Scheme.	1933–34.	1934–35.	1935–36.
	(pence per gallon)		
England and Wales ...	South Eastern region $14\frac{1}{3}$ Other regions $13\frac{3}{4}$	All regions $15\frac{1}{12}$	$15\frac{1}{4}$
Scotland (main area) ...	14	14	14
Aberdeen and District	—	$14\frac{1}{2}$	$14\frac{3}{4}$
North of Scotland ...	—	$14\frac{1}{2}$	15

The English scheme provides that the wholesale price of milk may vary according to the region in which it is produced or consumed. In the first year higher prices were fixed for the South Eastern region than for the others, but no differentiation between regions has been made in subsequent contracts. No comparable differentiation has been made under either the main Scottish or the North of Scotland scheme, but under the Aberdeen scheme higher prices have been charged for milk sold to buyers in Peterhead.

It will be seen that in England and Wales the wholesale price of milk for liquid consumption rose in the second year and again in the third year of the scheme. In the main area of Scotland the wholesale price has remained at the same average level for each of the contract periods. Under the Aberdeen and North of Scotland schemes a small increase took place during 1935-36.

The wholesale contract prices of milk for liquid consumption are in general higher in the winter months than in the summer. Under the English scheme during the first year there was a difference between the highest winter and the lowest summer prices of 5d. per gallon in the South Eastern region and 4d. in all other regions. During the second year the difference of 5d. applied to all the regions. The effect of the Minister's decision following

* For details see Table 40 on page 323.

the Report of the Committee of Investigation was to maintain the difference between the highest and lowest monthly prices at 5d. for the year 1935-36. Under the main Scottish scheme there was no seasonal variation in price during the first year, but in each of the subsequent periods prices have been higher in winter than in summer. The seasonal variations have, however, been smaller than in England, the maximum difference between summer and winter prices being 2d. per gallon in the second year and 3d. in the third year. Under both the Aberdeen scheme and the North of Scotland scheme the maximum variation between summer and winter prices has been 1d. per gallon. The course of wholesale contract prices under the schemes is described in somewhat greater detail in Chapter 8.

Under each of the Scottish schemes wholesale prices higher than those for ordinary milk have been fixed for Certified and Grade " A " (T.T.) milk, sales of which are exempt under the English scheme.

Milk for manufacture.—Under both the English and the main Scottish schemes the price of milk to be used in manufacture is based upon an estimated " realisation value " depending upon the product into which the milk is to be manufactured, and thus the price varies for different products. In England and Wales the average price* obtained during the first year of the scheme for all manufacturing milk was 4·96d. per gallon. The actual price varied between a minimum of 3¼d. in certain months for milk in the lowest-priced categories to a maximum of 9d. per gallon throughout the year for the highest categories. During the second year prices tended to be lower, the average price realised for all milk sold for manufacture being 4·81d. Under the main Scottish scheme the average prices realised for manufacturing milk during the first and the second years were respectively 4·99d. per gallon and 4·73d. per gallon. For the year ended September, 1935, the average prices realised for manufacturing milk under the Aberdeen scheme and the North of Scotland scheme amounted respectively to 6·04d. and 6·77d. per gallon.†

(iii) Re-sale Prices.

Wholesalers' margins.—The English Board prescribed in the second and subsequent contracts the minimum margins above the contract prices at which milk might be re-sold wholesale. These margins varied according to the quantity of milk sold. During the second contract period the margin was ½d. per gallon for quantities of more than 1,000 gallons daily and 1d. per gallon for smaller quantities. In the third contract a further sub-division of quantities was made, with margins varying between ½d. and 1½d. per gallon according to quantity.

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* Excluding the repayable advances made under the Milk Act, 1934.

† See Tables 43 and 44 on pages 326 and 327.

Under the main Scottish scheme also minimum prices are fixed for the sale of milk by wholesalers to distributors, the price for such milk delivered in bulk being 2d. above the standard price. A higher margin, however, must be paid if the milk is delivered in bottles, or if the average daily quantity taken by the purchaser is less than 50 gallons. The Aberdeen Board has fixed a special wholesale price for bottled milk which is either 3d. or 4d. above the standard price according to whether the bottles belong to the buyer or seller. The North of Scotland Board by a term of the contract prohibits one distributor from re-selling to another; there can therefore be no re-sale by wholesale.

Prices to institutions.—Each of the four marketing Boards has made arrangements to supply hospitals and certain other institutions at special prices more or less related to the current wholesale prices for milk for liquid consumption. The English Board has a form of contract by which such bodies may obtain specified daily quantities, to be agreed day by day, on payment of a premium of not less than 1½d. per gallon. In the main Scottish area sales to institutions may be made at a price agreed between buyer and seller, but not less than the standard (wholesale) price. The Aberdeen scheme provided, during the 1935-36 contract period, for sales to hospitals and institutions under the control of local authorities at prices not less than 1d. per gallon above the standard (wholesale) price, and to institutions supported by voluntary contributions at prices not less than the standard (wholesale) price. Under the North of Scotland scheme, with a retail price of 2s. per gallon, the price to institutions other than charitable institutions in 1935 was 1s. 6d. or 1s. 8d. per gallon according to quantity, and in 1936 1s. 8d. per gallon. In both years the price to charitable institutions which are not rate-aided was 1s. 4d. per gallon.

Semi-retail prices.—Provision is made under all the schemes for the sale of milk to large-scale consumers such as hotels and restaurants at prices lower than those charged for ordinary retail sales. In England no reduction is made on quantities of less than one gallon. The retail price may be reduced by 4d. per gallon on quantities over one gallon but less than four gallons, and by 6d. per gallon on quantities over four gallons but less than ten gallons. Under the main Scottish scheme there is a reduction varying from 2d. to 7d. per gallon on quantities of more than two gallons, the semi-retail price depending upon the quantity purchased and upon whether the milk is sold in bulk or in bottle. In the Aberdeen area the semi-retail price is 1s. 6d. per gallon and in the North of Scotland 1s. 8d. per gallon, for lots of not less than two gallons.

Retail prices.*—Under the English scheme the Board required, during the first contract period, that milk sold by retail should be sold at the local " prevailing price ", and the control of retail prices was only partially effective. During the second contract period

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* See Tables 45 and 46 on pages 328 to 333.

minimum retail prices were controlled by the Board through a clause in the wholesale contract fixing the minimum margin, in excess of the wholesale contract price, at which milk could be sold by retail. Producer-retailers were required by the terms of their licence to observe the same minimum retail prices as other retailers. The minimum margin between contract prices and retail prices varied during this summer period of six months (April to September, 1934) from 8d. per gallon in rural areas to 10d. in large towns, and minimum retail prices from an average of 1s. 8d. throughout the period to an average of 1s. $10\frac{2}{3}$d. In the second year (the third contract period) minimum retail prices were fixed for different types of areas, being lowest in rural areas and small towns and highest in large urban areas. Retail prices of milk rose generally during the second year, especially in the smaller towns and in rural districts.

The minimum retail prices prescribed in England and Wales have shown seasonal variations, being lower in certain summer months than in winter. They have also varied between areas within the scheme; thus during the second contract period retail prices in the South Eastern region were higher than those in other regions, and in the third contract period further differentiation was made between different types of local government areas according to population. Prices during the latter period (1934-35) varied from a yearly average of 1s. $11\frac{1}{3}$d. in rural districts and urban districts of less than 10,000 inhabitants to 2s. 2d. per gallon in urban districts having a population of more than 25,000 (2s. $2\frac{2}{3}$d. if in the South Eastern region). A new provision was made in the 1935-36 contract for the sale of milk by retail at the farmhouse door at not more than 1d. a quart below the price paid for household deliveries.

In the second and following contracts provision was made for the reduction of retail prices, with the Board's consent, in any area where the majority of distributors, selling the greater part of the milk in that area, requested the Board to reduce the minimum price. In consequence retail prices have been reduced in a number of towns and villages; but on the other hand, there are many places where the retail price charged, especially in the winter, has exceeded the minimum fixed by the Board.

Throughout the three Scottish areas minimum retail prices have been fixed since the beginning of the schemes. A flat minimum retail price of 2s. per gallon prevailed in the first three contract periods of the main Scottish scheme, but the 1935-36 contract provided for a reduction in minimum retail prices to 1s. 8d. per gallon in May and June, the whole of which represented a reduction in the distributive margin. Under the Aberdeen and North of Scotland schemes the retail price has been 2s. per gallon throughout the year, but the Aberdeen Board has allowed a special reduction to 1s. 8d. in some thirty specified rural areas and to 1s. 4d. per gallon in nine other specified rural areas. More recently the

North of Scotland Board has undertaken the retail distribution of milk in certain parts of its area at a reduced price of 1s. 8d. per gallon.

(iv) Producers' Prices.

Average returns to producers.—The average pool prices received by producers from the inception of the schemes until September, 1935, are shown in the following Table. The averages are weighted in each instance for the monthly volume of sales, and in the case of England and Wales they represent also a weighted average of the regional pool prices :—

TABLE 6.—Weighted Average Gross Prices to Producers*.

Scheme.	1933–34.	1934–35.
	(pence per gallon)	
England and Wales	11·83	11·99
Scotland (main area)	10·38 (10 months)	10·61
Aberdeen and District ...	—	11·90
North of Scotland	—	12·70

* For details see Table 47 on page 334.

Returns to producers under the English scheme and the main Scottish scheme are, in general, lower in the summer months than in the winter on account both of the lower prices charged for milk for liquid consumption and of the higher proportion of milk necessarily sold at low prices for manufacture. The returns shown for the Aberdeen and North of Scotland schemes are not so much affected by the lower prices received for manufacturing milk.

In England the weighted average of returns to producers rose during the second year by 0·16d. per gallon. Thus the increase† of 1·33d. per gallon in wholesale liquid milk prices in all regions except the South Eastern, and of 0·75d. per gallon in the South Eastern region, resulted in a much smaller increase in the average pool price. This was on account of the increased proportion sold for manufacture.

The figures given for the main Scottish scheme are affected by the fact that the first period did not include October or November, 1933. These are both winter months, in which pool prices are above the average; and the effect of their inclusion for the year 1934-35 is to raise the weighted average above that for the ten months December, 1933, to September, 1934, by 0·23d. If a comparison is made between the corresponding ten month

† See Table 48 on page 336.

periods of 1933-34 and 1934-35, a slight decline is shown from 10·38d. to 10·37d. Neither of the other two schemes has been operating long enough to enable a similar comparison to be made.

The regional pool prices in England do not represent the actual returns from the sale of milk within each region, because of the addition or deduction made through the operation of the inter-regional compensation levy. In one month the difference between regions was as much as 2½d. per gallon, but in accordance with the Board's declared policy it has not averaged more than 1d. per gallon since February, 1935.

Margins between wholesale prices and producers' returns*.—The difference between the wholesale price of milk for liquid consumption and the pool price, which is frequently referred to as the " Board's levy ", consists mainly of payments made to equalise the prices received for milk sold into the liquid market and for milk sold for manufacturing purposes. In other words, by far the greater part of this difference, or " levy ", is used to enable the Boards to pay the pool price on milk sold for manufacture at prices lower than the pool price. The amount of the difference thus depends largely upon the relative quantities sold for liquid consumption and for manufacture and the prices realised in the two markets.

In England the difference between contract prices and producers' prices averaged 1·78d. for the first year and 2·88d. for the second year, the increase being due to the rise in liquid milk prices and the increase in the quantity of milk sold for manufacture.

The difference between contract prices and pool prices has been wider under the main Scottish scheme, averaging 3.62d. for the first ten months of the scheme and 3.39d. per gallon for the following year. Under the Aberdeen and the North of Scotland schemes the margins for the year 1934-35 were respectively 2.60d. and 1.84d. per gallon.

Under all the schemes that small part of the difference between contract prices and producers' pool prices which is not used in equalisation payments represents the expenses of the Boards in administration, publicity and the provision of reserves, and, in England, the payment of a bonus to accredited milk producers. In England ¼d. per gallon on all contract milk sold during each month, except May, June, October and November, 1934, and May and June, 1935, has been set aside to meet the cost of administration and to provide a reserve. During May producers and distributors of contract milk each make a contribution of ⅛d. per gallon to a fund for publicity purposes. The Scottish Boards do not separate either expenses or publicity levies from the general equalisation payment.

The actual costs of administration of the English scheme amounted to 0.08d. per gallon in the year ended 31st March, 1935, and to 0.10d. in the following year. For the same periods the costs

* See Table 50 on page 340.

under the main Scottish scheme were 0.10d. and 0.11d. respectively. Administrative costs in the first seventeen months (August, 1934, to December, 1935) of the Aberdeen scheme amounted to 0.17d., and for the first fifteen months (October, 1934, to December, 1935) of the North of Scotland scheme the corresponding figure was 0.32d. Although it is possible that the figures given have not been calculated on exactly the same basis for each scheme, it is plain that administrative expenses are at a higher rate per gallon under the smaller schemes.

Levies payable by special classes of producers.—Certain classes of producers, such as producer-retailers, who do not receive payment for their milk through the Boards are, nevertheless, called upon to contribute towards the cost of operating the schemes and also to bear some share of the burden of manufacturing milk.* The basis of assessment varies under the different schemes, but in each case the levy is either a proportion of the contribution by ordinary producers or a flat sum per cow per annum.

In England producer-retailers' levies averaged for the first year 1.58d. per gallon, but they increased by nearly 1d. during the second year, averaging 2.51d. per gallon.† Under the main Scottish scheme the levy averaged 2.99d. per gallon during the first year; during the second year payment on a cow basis was introduced, and the figure of 2.05d. for that year is therefore not entirely comparable. Under the Aberdeen scheme payment has also been on a cow basis; it worked out at 0.66d. per gallon in each month from the inception of the scheme until September, 1935. Under the North of Scotland scheme the levy averaged 0.99d. per gallon during the year October, 1934, to September, 1935.‡

Under the main Scottish scheme producers of Certified milk originally paid the same rate of levy, and were assessed on the same basis, as producer-wholesalers and producer-retailers, but by Order§ of the Secretary of State for Scotland in July, 1935, the rate of levy payable in respect of Certified milk sold as such was changed to

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* The main Scottish scheme provides, in effect, in section 24 (2) that the Board shall recover from those producers who do not receive payment for their milk through the Board "such contribution as the Board may from time to time consider necessary to cover the costs of operating the scheme". Until July, 1936, the expression "costs of operating the scheme" was interpreted as including a sum representing the difference between the actual price received by the Board for milk disposed of by it in the manufacturing milk market and the price which the Board assumed it would have received if such milk had been sold in the liquid milk market; and the Board has from the beginning calculated its levies on this basis. The effect of the House of Lords' decision of 16th July, 1936, in the case of Ferrier v. Scottish Milk Marketing Board appears, however, to be that the expression "the costs of operating the scheme" used in section 24 (2) does not include any such sum, and that the Board is, therefore, not entitled to impose on the producers in question levies so calculated as to put upon them any part of the cost of equalising the returns from the sales of liquid and of manufacturing milk.

† See Tables 51 and 52 on pages 341 and 342. ‡ See Table 52 on page 342.

§ S.R. & O., 1935, No. 691.

½d. per gallon. Under the powers conferred by the Order, the Board also paid a bonus to the producers of Certified milk of an amount equal to the excess over ½d. per gallon of the contribution paid or payable by them in respect of sales of Certified milk as such during the period from 1st May, 1934. Producers of Grade " A " (T.T.) milk who sell milk to or through the Board are liable for the same contribution as that of ordinary producers, or they may arrange for the sale of their milk as producer-retailers and producer-wholesalers and pay the modified contributions of producers in these categories.

Under the Aberdeen scheme producers of Certified milk pay the same rate as producer-retailers. The contributions in respect of Grade " A " (T.T.) milk, whether sold through the Board or by retail, are the same as those for ungraded milk.

In the North of Scotland area producers of Certified and Grade " A " (T.T.) milk who sell it as such (whether wholesale or by retail) pay contributions at nine-tenths of the rate applicable to sales of ordinary milk to or through the Board. Producers of these grades of milk who sell it, wholesale or by retail, as ordinary milk pay the contributions appropriate, respectively, to wholesale and retail sales of ordinary milk.

PART II.—EFFECTS OF THE SCHEMES.

In Chapters 5 to 11 of this Part of the Report the effects of the milk marketing schemes are examined in some detail from a number of different aspects. Chapter 12 provides a summary, in much more general terms, of the findings of these Chapters.

CHAPTER 5.—EFFECTS ON THE GENERAL LEVEL OF PRODUCERS' PRICES.

The four milk marketing schemes in Great Britain have all been devised with the objects of securing the best practicable returns from the sale of milk for different uses and of spreading the loss in the low-priced market and the profits in the high-priced market among producers according to predetermined principles. The price arrangements operated by voluntary agreement in large areas of England and Wales and of Scotland before the schemes came into effect had these same aims; but in the last few years they were beginning to break down, largely on account of competition and price-cutting from producers and distributors who did not conform to the agreements. With the introduction of the schemes the principles of these price arrangements were firmly re-established, on a statutory footing, and the great majority of producers were brought within pooling systems. Consequently the position of producers as a whole was greatly strengthened.

In considering the question of producers' prices it is important to remember that not only the amount, but also the certainty of payment, is relevant; an assured price of 11½d. a gallon may be worth more than an uncertain price, which might prove to be 1s. but might equally well be only 11d. Further, the volume of sales ought to be considered as well as the level of prices.

In this Chapter we seek to compare the general levels of prices received by producers before and under the schemes and to indicate how far any changes are to be attributed to the operation of the schemes. In Chapter 6 we deal with the various pooling systems in operation and their effects on the relative positions of various groups and types of producers. Changes in the volume of production and of sales are discussed in Chapter 7.

(i) Producers' Prices in England and Wales.

For various reasons, no really satisfactory indices of milk producers' returns are available for the years immediately preceding the scheme. As the Grigg Commission pointed out,* the index of milk prices calculated by the Ministry of Agriculture and

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* Economic Series No. 38, page 23.

Fisheries is "hardly adequate as a measure of gross returns from the sales of milk by producers generally, or even as an indication of changes in the gross returns from milk sold at liquid milk prices in the country as a whole." Even before the introduction of the scheme this index gave very little weight to sales of milk at manufacturing or accommodation prices; it was an index of the wholesale buying price of liquid milk in four large towns rather than of producers' average prices. Since the scheme came into operation the index has had even less relation to reality as an index of producers' average prices, because it is based on the contract (i.e. liquid milk) price and therefore does not take into account sales of milk for manufacture, which are made at much lower prices. For what it is worth, a Table of indices of milk and other prices, similar to that given in the Grigg Report and covering the first two years of the scheme, is set out below, but with the caution that it indicates changes in buyers' prices for liquid milk rather than changes in producers' returns.

TABLE 7.—Index Numbers of Prices of Milk and General Index Numbers of Prices of Agricultural Produce in England and Wales in the Calendar Years 1930–35. (Base 1911–13=100.)

Index number of price of	1930.	1931.	1932.	1933.	1934.	1935.
Milk	161	147	144	150	163	176
All agricultural produce—						
(*a*) excluding subsidies ...	134	120	112	107	114	117
(*b*) including subsidies	—	—	114	111	119	123
All agricultural produce, other than milk—						
(*a*) excluding subsidies	128	115	106	99	104	105
(*b*) including subsidies	—	—	108	103	110	112

A better idea of the changes in producers' prices can be obtained by comparing the average pool prices under the scheme with the prices obtainable under the Class II (*b*) contract of the Permanent Joint Milk Committee. The operations of this body and the nature of its various forms of contract are described at length in the Grigg Commission's Report*; and they are also discussed in the following Chapter on page 44. Here it is sufficient to say that the Committee drew up annual agreements covering the sale of milk to London buyers during the years 1922-33, and that the terms it fixed were widely used as a basis for similar agreements in other large towns in England and Wales, with adjustments to meet local conditions.

* Economic Series No. 38, pages 10–18 and Appendix B.

The weighted average gross prices to producers under the Class II (*b*) contract in the two years preceding the scheme may be compared with pool prices under the scheme as follows :—

Class II (b) Contract.*		*Pool Price.*	
1931–32.	1932–33.	1933–34.	1934–35.
11·20d.	11·64d.	11·83d.	11·99d.

These figures must be interpreted cautiously. In 1931-32 the other contracts, Classes I and II (*a*), were still being used to some extent, and the gross returns under them were from 1½d. to 2d. per gallon higher than under Class II (*b*) ; but in 1932-33 they were little used. In both years also very large quantities of milk were sold wholesale at lower prices than those of the Permanent Joint Milk Committee's agreements. If allowance were made for these points, it is probable that the figure quoted for 1932-33 is considerably too high as an index of average gross returns for all supplies, while the figure for 1931-32 may be either a little too high or a little too low. The pool prices quoted for the scheme years are certainly low as indices of gross returns. They cover virtually all wholesale sales ; but they do not allow for premiums for level delivery or other services or, in the second year, for Accredited milk. If these were taken into account, the average gross price for 1933-34 would be 12·00d. and for 1934-35 12·18d. per gallon. On the whole it seems certain, therefore, that the average gross returns received by producers were appreciably higher even in the first year of the scheme than in either of the two preceding years.

The net returns to producers are the gross returns less transport charges. The total transport charges on contract milk sold under the scheme (including collection charges and costs incurred by producers themselves) have been estimated by the Board at 1·71d. and 1·83d. per gallon respectively for the first two years of the scheme. If allowance is made for the premiums already referred to and for transport charges, the average net returns on contract milk can, therefore, be estimated at 10·29d. in 1933-34 and 10·35d. in 1934-35. No comparable estimates of transport charges are available for the pre-scheme period. But there is no reason to suppose that actual freight or collection costs have been much affected by the scheme, and on the other hand a new form of transport deduction (described in the next Chapter) has been imposed under the pooling arrangements on milk used for manufacture. On the whole, therefore, it seems likely that the average sum in respect of transport charges of all kinds paid by producers selling on wholesale contracts has been higher under the scheme than in the years before the scheme ; in other words, that net returns have not increased so much as gross returns.

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* In calculating these prices it has been assumed that, on the average, the monthly incidence of producers' supplies was the same as in the first year under the scheme—an assumption which is probably very close to the truth. See page 69.

In view of the many gaps in the statistical evidence, it is impossible to make an exact comparison between the average levels of producers' net returns per gallon under the English scheme and before the scheme. We have no doubt that there has been some increase, but we are not in a position to measure it. There was a small increase in producers' gross returns in the second year of the scheme as compared with the first, but the increase in net returns was smaller still.

Such increases as have taken place in producers' net returns since the scheme came into operation are, however, not entirely a reflection of the increased bargaining power of producers under the scheme. The payments made by the Government under the Milk Act, 1934, in respect of milk manufactured by the Board and milk sold for manufacture have been partly responsible. These payments have been made only in respect of the period since 1st April, 1934; they therefore extended over only about one-half of the first year, but over the whole of the second year. Their effect was to raise producers' returns by an average of 0·14d. per gallon in 1933-34 and 0·29d. per gallon in 1934-35; and these amounts are included in the weighted average pool prices shown on page 34.

(ii) Producers' Prices in Scotland.

The main Scottish area.—During the first ten months of the scheme the weighted average pool price in the main Scottish area was 10·38d. per gallon; in the corresponding ten months of the following year it was fractionally lower at 10·37d. per gallon; and in the full twelve months of that contract period it was 10·61d. These prices do not, however, take into account the premiums received through the Board on account of quality, level delivery and other special services, and level production. Some of these premiums did not begin to accrue until some months after the beginning of the second year. The addition to be made to the average pool price on account of these premiums during the contract period 1934-35 in order to arrive at the average gross price is about 0·17d. per gallon.

From this gross price transport charges must be deducted in order to arrive at the producers' average net price. The average haulage charge paid by producers selling through the Board in 1935 was 1·11d. per gallon. The average net price to these producers in the year 1934-35 can, therefore, be estimated at approximately 9·67d. per gallon, i.e. 10·61d. plus 0·17d. and less 1·11d. No corresponding data are available for the pre-scheme period; but the following Chapter suggests a number of reasons for supposing that producers as a whole have gained considerably.

As in England and Wales, returns to producers from the sale of milk have been augmented by the Government advances made under the Milk Act, 1934. The payments made to the main Scottish Board in respect of milk manufactured by the Board and milk sold for manufacture represented the equivalent of an addition of 0·22d.

per gallon in 1933-34 and of 0·24d. per gallon in 1934-35 to the prices that would otherwise have been payable. Further, the funds out of which producers' prices have been paid in the main Scottish area have included compensation payments from the English Board to the main Scottish Board in respect of the curtailment of Scottish supplies to English markets; but as the amount of this compensation is calculated by reference to the loss sustained in the manufacture of milk which was previously sold into England, this factor is unlikely to have had much effect upon the relationship between producers' returns before and since the scheme came into operation.

The Aberdeen area.—The average gross pool prices received by ordinary producers under the Aberdeen scheme are compared below with those obtained in the pre-scheme period under the Aberdeen and District Milk Agency, which handled the bulk of the supply now controlled by the Aberdeen Board. The period used for this comparison is from 1st November to 31st October, i.e., the financial year of the Agency.

	Average Gross Price. *Pence per gallon.*
1931-32—Agency	11·97
1932-33—Agency	11·39
1933-34—Agency and Board	11·54
1934-35—Board	12·01

The average transport charge to be deducted from these prices is estimated at 1d. per gallon under the Agency and ¾d. under the Board. Under the Agency, however, producers could sometimes obtain special premiums for level delivery and other services; the Board makes no provision for these. Nevertheless, it seems probable that the average net price received by producers has been somewhat higher under the scheme than it was under the Agency in the two years immediately preceding the scheme.

The Government advances under the Milk Act, 1934, in the Aberdeen area were only sufficient to raise producers' prices by an average of 0·02d. per gallon in 1933-34 and 0·07d. per gallon in 1934-35.

The North of Scotland area.—We are informed that the prices payable by distributors to producers in the Inverness district, which is the largest centre of consumption, had ranged from 12d. to 14d. per gallon, according to season, during 1932 and 1933, but had fallen to 10½d. during the summer of 1934, immediately before the scheme came into force. The average price paid to registered producers in 1934-35, the first year of the scheme, was 12·70d. per gallon. There has probably been little change in the rate of transport charges. In 1934-35 the Government advances under the Milk Act, 1934, were responsible for raising average prices by approximately 0·1d. per gallon.

The evidence is too meagre to permit of any measurement of the change in returns to producers, but the probability is that they are appreciably higher, as well as more secure, than in the last year before the introduction of the scheme.

CHAPTER 6.—EFFECTS ON PRICES TO DIFFERENT CLASSES OF PRODUCERS.

(i) General.

Complaints of producers about the operation of the schemes chiefly come from those who, in the pre-scheme period, had an established position as suppliers of milk to the liquid market. This group includes those who had a naturally favoured situation in the immediate neighbourhood of towns and those who, although not situated near towns, were comparatively well placed for supplying milk to the main centres of consumption. The latter were found within a wide radius of the consuming centres, in districts well served by rail and road transport. In general, such producers—and particularly those close to towns—followed a system of more level production than producers in the remoter districts, who were more concerned with the manufacture of milk products and with stock-breeding. In England and Wales this is illustrated by the difference between the proportions of summer and winter output in the various regions (see page 69) ; for example, in the Southern and South Eastern regions, where dairy farmers mainly serve the liquid milk needs of a densely populated area, there is less difference between summer and winter output than in the Far Western and North Western regions. There are, of course, large numbers of level producers, even in areas where seasonal production is the general rule; and by no means all producers supplying the liquid market maintain level production.

The general contention of producers who formerly supplied the liquid market is that they are entitled to a higher level of returns than others for three reasons; first, on account of the natural advantage due to the situation of their farms, secondly because their costs are necessarily higher, and thirdly because where level production is undertaken it is a special service to the liquid milk market which should be adequately rewarded. These claims and the counter-claims they have provoked raise wide issues of policy which are considered at a later stage. This Chapter is confined to an examination of what has actually happened.

(ii) The Pooling System in England and Wales.

The English scheme provides for a separate price pool for each of the eleven regions into which the country is divided. The income of a regional pool consists primarily of the receipts from :—

(*a*) contract sales into the liquid market of milk produced within the region;

(*b*) contract sales for manufacture of milk produced within the region (computed at the average manufacturing price for the whole country);

(*c*) the contributions of producer-retailers within the region; and

(*d*) transport deductions from producers within the region in respect of manufacturing milk.

After adjustment has been made for premiums earned by individual producers and for administrative expenses, the income of each regional pool is divided among producers in the region on a per gallon basis.

If this system had been operated without modification, regional differences between producers' prices would have been determined primarily by the proportions of milk sold in each region at liquid milk prices and at manufacturing prices; and seasonal variations would have depended upon seasonal alterations in these proportions and in the prices received for liquid and manufacturing milk.

Two further provisions were, however, made in the scheme which were designed to influence regional and seasonal variations in producers' prices. In the first place, it was provided that different levels of buying prices for liquid milk might be fixed for different regions. This device was employed during the first year of the scheme to secure somewhat higher prices to producers in the South Eastern region, but it has not been used during the subsequent contract periods. Secondly, provision was made for an "inter-regional compensation fund", the purpose of which was to prevent unduly large variations between regional pool prices. This fund is derived from a uniform levy on each gallon of milk sold for liquid consumption. In consequence, the regions selling the largest proportions of liquid milk make the largest proportionate contributions to the fund. In the allocation of the fund the Board has considerable latitude, but in practice it has adopted the method of making payments to all regions at a flat rate per gallon of milk sold for manufacture. The result is that those regions selling the largest proportions of manufacturing milk receive the largest proportionate allocations from the fund.

It is understood that the Board, consisting in the main of representatives of regions having conflicting interests, found some difficulty in arriving at agreement as to how far inter-regional compensation should be used to reduce the differences between the levels of returns in the different regions*. The regions selling a large proportion of milk into the liquid market naturally desired to see a low levy; those with a large proportion of manufacturing milk wished to increase the levy and so to make returns to all producers more nearly equal. In the end a compromise was reached in

* This difficulty was foreseen by the Grigg Commission, who recommended that the Joint Milk Council should be consulted with regard to the inter-regional compensation arrangements (Economic Series No. 38, page 129).

February, 1935, by which it was agreed, in effect, that the levy should be of such amount as would secure that henceforth, over a full year, the variation between the maximum regional pool price and the minimum regional pool price should not exceed 1d. per gallon. The regional pooling system has been operated on this basis ever since, and in no single month has there been a difference of more than $1\frac{1}{4}$d. between the highest and lowest regional pool prices.

The Board is not obliged to pay out each month the whole monthly income of the inter-regional compensation fund. During the first year some part of the income received during the winter was held over and paid out during the following summer, thus tending to reduce producers' returns in winter in the regions selling mainly to the liquid market and to raise them in summer in the regions supplying most of the manufacturing milk. Since then, however, it has been the Board's policy to spend the income of the fund each month. The inter-regional compensation fund is thus an instrument which could be used to influence seasonal as well as regional variations in producers' prices. As it is employed by the Board at present, however, it affects seasonal variations within regions, but not throughout the scheme area regarded as a whole.

The main control which the Board now exercises over seasonal variations in producers' prices is applied through its power to vary monthly liquid milk buying prices. The practice under pre-scheme agreements of charging considerably higher prices for milk sold for liquid consumption during the winter months has been continued, and the number of high-price months was increased in the second year from six to eight.

(iii) Effects of Transport Charges in England and Wales.

The arrangements made by the Board as regards transport and transport charges are described in detail in Appendix III. It is necessary, however, to draw attention here to the chief changes introduced under the scheme because of their effects on producers' net prices.

The transport expenses on all milk sold on direct contract for liquid consumption are borne by the individual producers concerned, as they were before the scheme came into operation, whether the producer himself arranges to give delivery or the buyer takes responsibility for the arrangements and the producer pays him an agreed charge. We have no evidence on which to compare the transport costs now incurred by producers on such milk with those previously incurred, but it is unlikely that the scheme has caused any considerable change.

There have been a number of important changes in connection with the transport charges on milk sold to depots or factories. The differences are necessitated by the price structure under the pooling system. The simplest and most striking change is in

respect of milk sold to factories. Before the scheme came into being no transport charges were incurred on such milk other than the costs of delivery to the factory. Apart from these delivery charges, however, the scheme provides that producers shall pay *to the Board* on such milk an additional charge, known as the " special transport deduction ". This charge obviously does not represent actual transport costs at all, since the milk on which it is paid does not leave the factory. It is really a means of preventing the returns to producers who sell to local factories from exceeding those received by producers who supply more distant liquid milk markets. If no such charge were made producers supplying factories would receive the full pool price less their small delivery charges and thus would be better off than similarly situated producers whose milk was consigned over longer distances to the liquid milk market.

The " special transport deduction ", then, is a new charge which has been imposed on factory supplies in order to secure equity in operating the pool, and it must be offset against the higher prices that factory suppliers are now obtaining under the pooling system. The average special transport deduction made in 1933-34 was 1·02d. and in 1934-35 was 1·24d. per gallon.

The method of arriving at the transport charges on milk sold to depots supplying the liquid market is more complicated. In the year immediately preceding the scheme, supplies to creameries (or depots) were most commonly sold on Class II (*b*) contracts under the negotiated agreements. These provided that the producer should be paid at manufacturing milk prices for a proportion of his sales, the proportion being determined according to formula. On this part the producer had no transport charges to pay other than delivery charges to the creamery. On the part which was sold at liquid milk rates two charges were payable by the producer in addition to delivery charges, namely :—

(i) a sum equal to the railway rate on the milk from the creamery to the ultimate destination ;

(ii) a creamery charge, which was supposed to represent an allowance for the reduction of transport risks which resulted from the milk being handled by the creamery.

Under the scheme the following changes have been made :—

(*a*) All charges for transport on milk supplied to each depot are averaged among the group of producers supplying that depot.

(*b*) While transport charges to the ultimate destination are still payable by producers to depot buyers in respect of liquid milk, they are payable only on the actual quantities of milk sold as liquid and not on a proportion defined by formula.

(*c*) The freight charge probably approximates more nearly to the actual railway carriage than under pre-scheme conditions, since depots must inform the Board of the actual destinations of the milk and adjustments are made for milk which does not travel the maximum distance. Incidentally, no allowance is made in the charge for any economies due to the bulked transport from the depots.

(*d*) On all milk which is used for manufacture in depots the Board charges depot suppliers at the full " standard freight charge " of their respective depots (i.e. the railway charge to the furthest destination served by them). This charge made by the Board is comparable with the " special transport deduction " imposed on milk sold to factories and serves the same purpose.

The sum of charges connected with transport now borne by producers supplying depots is greater than before the scheme, because the imposition of the " standard freight charge " on the quantities used for manufacture outweighs the gains that may have resulted from (*b*) and (*c*) above. The sum of charges connected with transport (other than collection charges) borne by depot suppliers in 1934-35 averaged 1·92d. per gallon. Producers supplying depots under Class II (*b*) contracts in 1932-33 appear to have paid about 1½d. per gallon on the average in respect of charges other than collection. It is unlikely that collection charges have altered much.

The chief changes as regards transport charges that have resulted from the scheme may, therefore, be summarised as follows : Direct suppliers of liquid milk to towns have been but little affected. Direct suppliers to factories now bear a substantial new charge on all their sales. Depot suppliers also now bear a similar charge on that part of their milk which is used for manufacture, as the result of which their average transport charges per gallon have been increased. It must be remembered, however, first, that the new charges do not represent an increase in transport costs but are essentially a part of the pooling arrangements; and secondly, that in many cases the charges must be offset against the increases in average returns to which we refer later in this Chapter.

(iv) Regional and Local Price Differences in England and Wales.

The average gross pool prices paid in the various regions for the first two years of the scheme are shown in the following Table. It is also possible to show for 1934-35 the estimated average of total transport charges on sales in each region (including charges paid by producers direct, those debited to them by buyers and those imposed by the Board), and thus to indicate the average *net* returns to producers in each region. Similar details are not available for 1933-34. In the Table the regions are arranged in the order of the gross pool prices received in the first year, those with the highest prices being placed first.

TABLE 8.—Average Pool Prices, Transport Charges and Producers' Net Returns (excluding premiums).

(Weighted for monthly quantities.)

Region.	Average pool price, 1933–34.	Increase, 1934–35 / 1933–34.	Average pool price, 1934–35.	Average transport charge, 1934–35.	Average net returns 1934–35.
	(pence per gallon)				
South Eastern... ...	12·75	0·03	12·78	1·15	11·63
Southern	12·26	0·24	12·50	1·49	11·01
Eastern	12·22	0·23	12·45	1·88	10·57
Northern	11·90	0·20	12·10†	2·02	10·08
East Midland	11·89	0·29	12·18†	1·41	10·77
South Wales	11·70	0·36	12·06	2·58	9·48
North Western ...	11·70	0·25	11·95	1·69	10·26
Mid Western	11·55	0·04	11·59	2·29	9·30
West Midland... ...	11·34	0·14	11·48†	1·98	9·50
North Wales	11·33	0·20	11·53†	2·09	9·44
Far Western	11·29	0·10	11·39	2·53	8·86
Average of Regional rates ...	11·81	0·19	12·00	1·92	10·08
Average weighted by Regions	11·83	0·16	11·99	1·83*	10·16*

† Indicates a change of order in the second year.

* The corresponding figures for 1933–34 are 1·71d. and 10·12d.

Pool prices.—Pool prices have not varied greatly as between the different regions. The difference between the regions having respectively the highest pool price (South Eastern) and the lowest pool price (Far Western) was 1·46d. in 1933-34, and 1·39d. in 1934-35. Except in the South Eastern region, there was in no case a difference, taking the year as a whole, of more than three-fifths of a penny between the pool price of any region and the average of the regional pool prices. In the second year all regions obtained a higher pool price than in the first year, but the amount of the increase varied considerably, being smallest in the South Eastern region (which already had the highest pool price) and greatest in South Wales. Nevertheless the regions occupied the same order as regards the level of their pool prices in both years, except for two small changes. On the whole, therefore, there were no striking changes in the results of the pool system in the second year as compared with the first.

There is a close connection between the amount of the regional pool price and the levelness of production, as might be expected from the fact that winter prices for liquid milk are much higher than summer prices. The regions having pool prices greater than the average have in both years been those in which production is most level, namely, the South Eastern, Southern, Eastern, East Midland and Northern regions.*

* See Table 17 on page 69. South Wales provides a slight exception in the second year.

There is no apparent connection between the relative levels of pool prices obtained by the different regions and the amounts by which they increased their sales in the second year. Of the five regions where sales increased at more than the average rate,* only two—the Northern and Eastern—had prices above the average in both years; on the other hand, three of the six regions where sales increased at less than the average rate had pool prices above the average in both years. These facts suggest the importance of local conditions, such as costs of production, the value of milk used on farms, the profitableness of other branches of farming and the value set upon family labour, in determining how producers will vary their sales in response to price changes. Such conditions differ widely from one region to another; and there will be corresponding differences in the levels of prices which are sufficient in different regions to induce producers to increase their sales.

Within regions, also, there are groups of producers who differ widely both as regards their conditions and systems of production and as regards the outlets through which, and the prices at which, they have been accustomed to dispose of their milk. The influence of the same pool prices is likely to be different on each of these groups. For example, within regions where production is, on the whole, seasonal and pool prices are low, there were some level producers before the scheme came into being, and these obtained relatively high prices. There were certainly considerable numbers of level producers in the Mid Western and West Midland regions, which for some time have been important sources of supply for the liquid market; and in the Far Western and North Wales regions level producers were found near towns. It is producers such as these who have fared worst under the scheme.

A case in point, about which some limited price data are available, is that of the producers of the West Riding. Although the pool prices of the North Western region have been only slightly below the average, the West Riding producers claim to have been hard hit because many of them were able, in the years before the scheme, to obtain prices even higher than those agreed by the Permanent Joint Milk Committee. The actual prices which (we are informed) were payable to a number of these producers in pre-scheme years are compared below with their pool prices under the scheme :—

	Prices for level dairies agreed between farmers supplying Bradford and the Bradford Retailers' Association.		Pool prices, North Western Region.	
	(pence per gallon)			
	1931–32.	1932–33.	1933–34.	1934–35.
Winter	16·5	17·0	13·4	13·8
Summer	16·0	15·5	10·3	10·4

* See Table 15 on page 62.

Producers in the West Riding who obtained prices such as these in the pre-scheme years have certainly suffered severely under the scheme, even if they have obtained level delivery, special service and Accredited premiums. But it is not known how many producers in the West Riding obtained such high prices; and it is doubtful whether in any case it would for any lengthy period have been possible to maintain prices at a level so much higher than elsewhere.

Transport charges and average net prices.—The estimated average amounts charged to producers in respect of transport in the different regions differ widely, the highest charges in 1934-35 being more than 2½d. (Far Western and South Wales regions) and the lowest less than 1¼d. (South Eastern region). In each case the figures undoubtedly represent an increase on the pre-scheme averages, chiefly on account of the transport deductions imposed on manufacturing milk and paid into the pool. These deductions, and thus the increases in total transport charges in the various regions as compared with the pre-scheme rates, depend mainly upon the proportion of milk used for manufacture* and the remoteness of depots from their main markets: for it is these two factors which determine, respectively, the volume of milk on which transport deductions are payable to the Board and the rate per gallon of these deductions. Thus the average transport charges must have increased most heavily in such regions as South Wales and the Far Western, which are remote and also sell a large proportion of their output for manufacture. The South Eastern region, on the other hand, is near its main market and sells only a small proportion for manufacture, so that the Board's transport deductions cannot have had much effect on the average charges borne by producers.

The last column of Table 8, which gives the average net returns in 1934-35 (i.e., the gross pool prices less average transport charges) shows that producers' actual net returns differ widely from region to region, the greatest difference being about 2¾d. It is important to remember that a considerable part of this difference is due to the system of transport deductions on manufacturing milk and to the different incidence of these deductions in the different regions. In other words, the pool prices do not tell the whole story of the effects of pooling, especially on producers supplying depots and factories; a part is concealed in the transport deductions.

(v) Price Differences to Seasonal and Level Producers in England and Wales.

The pre-scheme position.—In order to show the present relations between seasonal and level producers in their proper perspective, it is worth referring briefly to certain broad changes in successive contracts agreed by the Permanent Joint Milk Committee in the

*See Table 36 on page 317.

pre-scheme period*. These reflect important changes in the production and marketing conditions that were already in progress before the scheme began.

In the first seven years of the agreements, the quantity of milk for which a producer was paid at the full liquid milk price depended on the volume of his sales in certain winter months. This arrangement was obviously favourable to relatively level producers and unfavourable to highly seasonal producers who produced little milk in winter. In 1929-30, however, there was an important change of principle. A producer was entitled to the full liquid rate on a quantity of milk " declared " by him in advance, deductions being made for supplies above or below certain permitted margins of variation. The change, while not disadvantageous to level producers, benefited seasonal producers, who could now declare some quantity between their maximum summer and minimum winter supply. In the next year, the Class II (*b*) contract was introduced as an alternative to the " declared quantity " contracts. This contract fixed in advance the proportions of every producer's supply that would be paid for at the full liquid price in each month, without any relation to whether his supply was level or seasonal. Naturally the Class II (*b*) contract was especially unpopular with level producers; for, except in so far as prices for liquid milk were higher in the winter than in the summer, level producers were placed by this contract on the same footing as seasonal producers. Their position was weakened further by the agreements of 1931-32 and 1932-33, by which the buyer became entitled to decide whether he would buy on the Class II (*b*) contract or on one of the " declared quantity " contracts. In 1932-33, the last year before the scheme, the great majority of contracts under the agreements were on a Class II (*b*) basis.

The successive changes in contracts can be attributed primarily to the increase in supplies available to buyers, largely because the more distant areas were being tapped for supplies. One result of the increase was that level delivery became less important to buyers. The successive contracts reflect not only a weakening in the bargaining position of producers as a whole, but also a steady deterioration of the level producer's position relatively to that of the seasonal producer.

The position under the scheme.—As compared with the " declared quantity " type of contract, the price system under the scheme strengthens the position of seasonal producers and weakens that of level producers; but by 1932-33 the " declared quantity " contracts were becoming very little used. On the other hand, when compared with the Class II (*b*) contract, which placed all producers on the same footing (except in so far as liquid milk prices varied from month to month), it seems that the system of regional pooling has improved to some extent the position of the more level producer

* Details of these are given in Appendix B of the Grigg Commission's Report.

relatively to that of the seasonal producer. It has made possible some differentiation in prices between regions; and though the differences have not been great, the system has operated on the whole so as to give higher prices to the more level than to the more seasonal regions. Moreover, by providing in the contract special optional terms for level delivery, the Board has probably assisted level producers to obtain some reward for their consistency.

The more level producers, however, complain that in practice they have suffered from the pooling system, because the influx of seasonal supplies has greatly increased the burden of manufacturing milk. It is certainly true that the burden of manufacturing milk has greatly increased; but it is probable that, in the absence of a scheme, the percentage of manufacturing milk under Class II (*b*) would have been still further increased by reason of improvements in transport and changes in marketing conditions that were already in progress, with the result that the average price payable would have fallen below the 1932-33 level. Moreover, the relatively level producers are themselves responsible for some part of the increase in supplies.

To make entirely satisfactory comparisons between the returns received by level and seasonal producers before and after the scheme came into operation would require more detailed price data than are available; but the following Table gives some indication of the position. It continues the series of prices given on page 25 of the Grigg Commission's Report and shows how the gross returns received under the scheme by a producer with a relatively level and a producer with a relatively seasonal production compare with the returns obtainable by them under the pre-scheme contracts. The prices for the scheme period are calculated on the pool prices for a seasonal region, the Far Western, which has had the lowest pool prices; for a level production region, the South Eastern, which has had the highest pool prices; and for the North Western region, where both the seasonality of production and the level of prices are fairly close to the average for the whole scheme area.

TABLE 9.—Estimated Average Returns per Gallon for a Dairy

(i) with a considerable seasonal variation,*

(ii) with a small seasonal variation.†

	1931–32.			1932–33.			1933–34.			1934–35.		
	Class I.	Class II (*a*).	Class II (*b*).	Class I.	Class II (*a*).	Class II (*b*).	South Eastern Region.	North Western Region.	Far Western Region.	South Eastern Region.	North Western Region.	Far Western Region.
	d.	d.	d.	d.	d.	d.	d.	d.	d.	d.	d.	d.
Considerable seasonal variation	12·61	12·65	10·98	13·22	13·10	11·50	12·55	11·61	11·39	12·48	11·78	11·38
Small seasonal variation ...	13·35	12·91	11·28	13·91	13·48	11·82	12·78	11·82	11·58	12·77	12·08	11·67

	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.
*Considerable seasonal variation assumed	100	84	76	72	67	81	95	122	135	121	113	92
†Small seasonal variation assumed	100	96	94	93	92	95	99	105	109	105	103	98

Note.—(*i*) Pool prices under the scheme do not include premiums for level delivery or other special services.

(*ii*) Level producers in the pre-scheme years obtained, if they were fortunate, the higher prices payable under Class I and II (*a*) contracts.

(*iii*) Seasonal producers rarely, if ever, contracted under Class I. If those with the highest seasonal variations had contracted under Class II (*a*) they would have obtained returns markedly lower than those quoted above for that Class.

The difference between the producer's average returns on the two types of dairy shown in the Table was 0·32d. per gallon in 1932-33 under the Class II (*b*) contract. In the first year of the scheme it was between 0·19d. and 0·23d. in the three regions quoted, and in the second year between 0·29d. and 0·30d. In other words, the level producer's average returns from the pool improved relatively to those of the seasonal producer in the second year, so that the difference between them in 1934-35 was almost as great as it had been under the Class II (*b*) contract in 1932-33.

Level producers.—The average pool price obtained by a relatively level producer, as shown in Table 9, was the same in the North Western region in the first year of the scheme as under the Class II (*b*) contract in 1932-33; in the second year it was about ¼d. per gallon better. In the South Eastern region the level producer's returns were nearly 1d. per gallon better in each year of the scheme. But in the Far Western region they were worse by ¼d. in the first year and by about $\frac{1}{7}$d. in the second year.

To make a fair comparison between the average returns received by a level producer under the scheme and before the scheme, three other factors ought to be taken into account, namely:—(i) that some producers still obtained Class I and Class II (*a*) terms even in 1932-33; (ii) that under the scheme some level producers have obtained level delivery, special service and Accredited premiums; and (iii) that transport charges have changed.

The relatively few producers in any region who had obtained Class I or Class II (*a*) terms in 1932-33 would have received lower returns in both of the following years unless they had contracted on a level delivery basis; producers in the South Eastern region would still have been somewhat worse off in each year and producers in other regions would have been considerably worse off. On the other hand, large numbers of level producers received level delivery and other premiums in the first two years of the scheme. In March, 1935, for example, a level delivery premium of ½d. per gallon was paid on about 11 per cent. of all sales under the scheme. Many level producers have also obtained premiums for special services and, since May, 1935, for accredited milk.

On the whole, the information that is available suggests that in most regions the majority of level producers have not fared badly under the scheme as regards the gross price obtained; that is, their prices have probably been at least as good as, if not better than, those in 1932-33. On the other hand, many producers who, in 1932-33, were fortunate enough to have Class I or Class II (*a*) contracts, must have received lower prices in the first two years of the scheme. But most of them would probably have lost their privileged position in any case.

In the preceding paragraphs the comparisons made are necessarily between the gross returns to producers under the scheme and those received under the London agreements. It has to be borne in mind, on the one hand, that prices under provincial agreements

were generally lower than London prices; and on the other, that the returns under the scheme are subject on the average to higher transport charges. The large number of producers who sell locally or who consign direct to nearby towns for liquid consumption now receive the same regional price as those selling to London, and their transport charges have probably not been appreciably affected by the scheme. Those selling to factories or through depots have also almost invariably secured better prices than formerly, but they have suffered heavier transport charges on account of the transport deductions made by the Board on milk sold for manufacture. The amount of these deductions, per gallon of *all* milk sold to factories and through depots in 1933-34, was 0·14d. for the South Eastern, 0·97d. for the North Western and 1·79d. for the Far Western region. The corresponding figures for 1934-35 were 0·13d., 1·10d. and 1·74d. respectively. These figures give some indication of the allowance to be made for changes in transport charges in comparing the prices paid to depot and factory suppliers before and under the scheme.

Seasonal producers.—As indicated in Table 9, the seasonal producer's average pool prices in both years of the scheme were higher in the South Eastern and North Western regions than the Class II (*b*) returns for 1932-33; but in the Far Western region, where the pool price was lowest, a slightly lower price was obtained under the scheme than under Class II (*b*).* A number of factors suggest that producers who were seasonal producers at the beginning of the scheme have done rather better than is indicated by the Table. It is fairly certain, in the first place, that they have increased their sales much more, proportionately, than level producers, particularly in the outlying areas where prices had frequently been lower than the contract prices; and the increase has been due to a diversion of milk from uses which presumably were less remunerative. Secondly, numbers of seasonal producers obtained Accredited milk premiums in the second year of the scheme. Thirdly, many producers who formerly had a highly seasonal production are now producing more level quantities. Level production would not usually have been good policy before the scheme for producers who had no local liquid milk market and who could not obtain contracts under the Permanent Joint Milk Committee's (or similar) agreements; but now the position is different, since anyone can obtain the pool prices and these are higher in winter than in summer.

In this connection the variations in the prices paid from month to month are of interest. Both before and since the scheme began, the prices payable for liquid milk have been higher in winter than in summer; the proportion of milk sold as liquid has also been higher

* The proportion of seasonal producers who obtained Class I and II (*a*), or similar contracts in 1932–33 was probably even smaller than that of level producers who did so; and in any case the advantage of such contracts to seasonal producers was less than that to level producers.

in winter. But there has been some change in the relation between monthly prices since the scheme came into effect, as the following Table shows :—

TABLE 10.—Monthly Variations in Producers' Prices.

	Average price, Class II (*b*) contract.	Average pool price of all regions* (weighted).	
	1932–33.	1933–34.	1934–35.
	(pence per gallon)		
October	13·25	13·51	13·56
November ...	14·35	14·00	13·81
December ...	15·20	14·34	14·35
January... ...	15·50	14·01	14·46
February ...	14·62	13·61	13·99
March	11·00	11·99	12·87
April	9·90	10·63	12·06
May	9·20	10·01	9·35
June	9·20	10·24	9·54
July	9·90	10·51	9·84
August	9·90	10·76	10·01
September ...	11·00	10·77	12·74

* The monthly prices for the individual regions are given in Table 48, on page 336.

The average monthly pool prices paid under the scheme in each year have been lower in the four months from November to February and higher in seven of the remaining months than the prices paid under the Class II (*b*) contract in 1932-33. On the whole, pool prices under the scheme have varied less throughout the year than the prices received by producers contracting under Class II (*b*) in 1932-33.

It appears from these figures that those producers whose production is highly seasonal, being concentrated almost entirely in the summer months, have obtained the largest increase in prices under the scheme. Such producers consist mainly of those who have good grazing facilities and whose milk output—at least in pre-scheme days—was used largely for manufacture or feeding young stock. Those who had contracts under Class II (*b*) in 1932-33 must have gained appreciably as a result of the higher summer prices, especially in the first year of the scheme; and those who previously did not sell at all, but used their milk on the farm, are now selling milk presumably because the prices obtainable are relatively attractive to them.

The pool prices received by seasonal producers are, of course, subject to transport charges. On the whole, transport charges have probably increased more for seasonal producers than for level producers, since a larger proportion of their milk is used for manufacture and therefore incurs the special deductions imposed by the Board. It is not possible to indicate how far such additional transport

charges offset the gains that these producers, as a body, have made in their average gross prices.

Producer-retailers.—On the whole, producer-retailers may be regarded as a special group of level producers, though many who have only small retail rounds and dispose of the greater part of their supplies through the Board may not maintain very level production.

The returns of producer-retailers depend immediately on the retail price rather than on the wholesale price of milk. Though the general tendency has been for retail prices to rise, the amount of the increase has not been the same in all parts of the country (see Chapter 8). While, therefore, the gross returns of producer-retailers have increased, it is difficult to say how far, on the average, the increase has been offset by the contributions payable to the Board. Some producer-retailers in England and Wales are no doubt better off and others worse off under the scheme; but regarding them as a body, they have gained a larger measure of stability. The position of producer-retailers is discussed in some detail in Chapter 16.

(vi) The Pooling System under the Main Scottish Scheme.

The main Scottish scheme provides for a single pool. As under the English scheme, the income consists primarily of the receipts from four sources, namely:—

(*a*) contract sales of liquid milk;

(*b*) contract sales of manufacturing milk and the amount credited to the pool for milk used in the Board's own factories;

(*c*) contributions from producer-retailers and producer-wholesalers;

(*d*) profits from the haulage fund.

From this pool there is allocated to individual producers any sums in excess of the standard price that may be realised on the sale of their milk on account of quality, level delivery or other special services. After provision has been made for administrative expenses and reserves, the balance is distributed among producers at the end of each month in proportion to the quantities of milk sold wholesale by them during the month.

The Scottish scheme makes no provision for regional differentiation of prices such as is found in the English scheme. A form of differentiation having much the same effect, however, has been introduced as a result of amendments to the scheme that are described below.

The Board is able to influence the seasonal level of producers' prices chiefly through its powers to fix monthly liquid milk buying prices; but under the amendments a direct incentive is given to level production by means of special premiums.

The transport arrangements are radically different from those of the English scheme. A scale of transport charges is prescribed by the Board, the charge payable by each producer being determined

by his road distance from the nearest of a number of specified haulage centres, regardless of where his milk is actually sent.

There are considerable profits from the haulage arrangements, and these are paid into the general pool. This means that in Scotland, as in England, the average of the transport charges paid by producers includes an element which does not represent transport costs and for which allowance must be made in considering the levels of pool prices received by producers.

The amendments to the scheme.—The effects of the scheme, through the single pool, on producers who had formerly concentrated on supplying the liquid milk market were the subject of complaint by the East of Scotland Milk Producers' Federation* early in 1934, and the matter was referred by the Secretary of State for Scotland to the Committee of Investigation. The negotiations which followed are described briefly in the Report (for 1934) on Agricultural Marketing Schemes† and need not be recapitulated here. As a result of the consideration of the findings of the Committee of Investigation and of conferences with representatives of the parties interested, Orders‡ were made by the Secretary of State in December, 1934, the effect of which was to make adjustments in the scheme, for a period of one year, providing for—

(i) a seasonal variation in the price payable to the Board for milk for liquid consumption, so as to increase the income of the pool in winter months at the expense of summer months and thus to give higher returns to producers in winter than in summer;

(ii) a special premium of ½d. per gallon on milk sold by producers who contracted not to sell to or through the agency of the Board in any month a quantity exceeding by more than 10 per cent. the quantity so sold in December, 1933;

(iii) the addition of 12 more haulage centres, all in the East of Scotland area, to the three (Glasgow, Edinburgh and Dundee) mentioned in the scheme; and

(iv) the determination of the levy on certain producer-retailers and producer-wholesalers on the basis of the number of cows in their possession at rates which represented a reduction in the levy.

The effects of these amendments were to increase the pool price for each winter month at the expense of summer months; to add, out of the general fund, to the returns of level producers who did not increase their output; to reduce the average haulage charge payable by producers in the East of Scotland; and to reduce the levy payable§ by producer-retailers and producer-wholesalers, particularly those who sold no milk to or through the Board. They were, therefore, all designed to assist particularly the level producers specialising in production for the liquid milk market, who are concentrated mainly in the eastern counties comprised within the area of the

* See footnote on page 65.

† Cmd. 4913.

‡ S.R. & O., 1934, No. 1437, and S.R. & O., 1934, No. 1438.

§ But see first footnote on page 30.

scheme. These amendments were, in substance, continued in force by a further Order* of the Secretary of State for Scotland after the end of 1935; but certain producers paying on the per cow basis were given an option of reverting to payment on a per gallon basis; and the seasonal variations in the standard price of liquid milk were determined by the Board.

(vii) Local Differences in Producers' Prices under the Main Scottish Scheme.

The single price pool under the main Scottish scheme has undoubtedly benefited producers in the West of the area, as a group, more than producers in the East. This is due primarily to the fact that producers in the West have a more seasonal output, on the average, than those in the East. Before the scheme was introduced they could only obtain very low prices for part of their summer output. Further, in spite of the growing mobility of supplies in recent years, prices even of milk for liquid consumption had tended to be rather higher in the East than in the West. Producers in the West now obtain for all their output the pool prices applicable to the scheme area as a whole.

Nevertheless there have been a number of factors operating under the scheme—especially since the amendments took effect—which tend to preserve some differentiation in the average net prices received by producers in the East and in the West.

In the first place, since there is a much larger proportion of level producers in the East, additions to the pool prices in the form of premiums for level production and level delivery are more common in the East than in the West. Secondly, there is a greater proportion of producer-retailers, whose contribution to the pool, made on a cow basis, worked out at a lower average rate per gallon than that of other liquid milk suppliers. Thirdly, producers in the East benefit to a greater extent than those in the West from the higher pool prices paid in winter, since their production is, on the whole, more level.

The East also benefits considerably as compared with the West under the present transport arrangements. This point is illustrated in the following Table :—

TABLE 11.—Operation of the Haulage Fund under the Main Scottish Scheme in the Month of June, 1935.

	Income from haulage charges.	Expenditure of Board on transport.	Surplus or deficit.
	£	£	£
East	3,930	4,017	— 87
West	41,167	28,311	+ 12,856
Scheme area ...	45,097	32,328	+ 12,769

* S.R. & O., 1935, No. 1246.

The month of June, 1935, has been taken at random to provide this illustration. Corresponding figures for a winter month, January, 1935, show much the same relationship between transport charges and actual costs in these two areas. These figures show that there is a substantial profit on the haulage fund as a whole. But they show also that, while producers in the East contribute almost exactly the sum required to pay the actual cost of transporting their milk, producers in the West contribute considerably more. In fact they pay an average of some $\frac{2}{3}$d. per gallon more than the actual cost.

The profit on the transport charges made on producers in the West is accounted for in part by the fact that, while they contribute at a rate determined by their distance from the nearest haulage centre, a relatively large proportion of their milk goes into manufacture locally and does not incur heavy transport costs. In this respect the differentiation in transport charges as between East and West is comparable with that which results from the transport deductions made on manufacturing milk under the English scheme. Under each scheme the object is to prevent the net returns on manufacturing milk from exceeding those on liquid milk.

But, apart from this, there are fourteen haulage centres in the East and only one in the West, and the effect is to reduce the average haulage charge payable by producers in the East as compared with that of producers in the West. The average standard haulage rate in June, 1935, was 1·19d. for farms in the West and 0·77d. for farms in the East. This element of differentiation is not found in the transport charges in England. It represents, in fact, a means of securing regional differentiation in producers' prices comparable with that secured under the English scheme by the more direct means of the regional pooling system.

The transport charge system and the other factors enumerated above undoubtedly make for a substantial differentiation in the average net returns received by producers in the West as compared with those in the East. We have not attempted to assess the actual amount of this differentiation, but it is evident that producers in the East have benefited considerably as the result of the amendments to the scheme. We are, however, of opinion that the differentiation between East and West has not borne overharshly upon producers in the West considered as a body.

(viii) Price Differences to Seasonal and Level Producers under the Main Scottish Scheme.

The available data do not admit of an exact comparison of prices received by level and seasonal producers under the scheme with those they obtained previously. But some light is thrown on the subject by the comparison between scheme prices and prices under the Scottish Milk Agency made in the following Table, though it should be noted that by 1932-33 the Agency had lost much of its

earlier influence and many of its supporters and that probably many producers selling on individual contracts outside the Agency were able to get better prices.

TABLE 12.—Producers' Prices and Liquid Milk Buying Prices under the Scottish Milk Agency and Pool Prices under the Main Scottish Scheme.

Month.	Scottish Milk Agency.		Scottish Milk Marketing Scheme.	
	1932–33.		1933–34.	1934–35.
	Liquid milk buying price.	Pool price to producers in Glasgow area.	Pool price.	Pool price.
	(pence per gallon)			
November ...	14	10·50	—	12·75
December ...	14	10·50	12·00	13·00
January ...	14	10·25	12·00	13·00
February ...	10	8·25	12·00	12·50
March	10	7·00	11·00	11·25
April	10	5·25	10·00	9·75
May	10	5·75	9·00	8·75
June	10	5·25	9·00	8·50
July	10	5·75	9·75	8·50
August	10	6·25	10·50	10·00
September ...	10	8·00	11·00	11·25
October... ...	10	10·50	11·50	12·00

It is evident, in the first place, that producers who contracted under the Scottish Milk Agency have obtained higher gross prices in every month under the scheme than they obtained in the corresponding months of 1932-33. The smallest difference in any month is 1d. and the greatest is $4\frac{3}{4}$d. Moreover, the increases are so great that they easily outweigh the somewhat higher average transport charges borne by producers under the scheme; in other words, there has been a considerable increase in net prices to producers who contracted under the Agency in 1932-33.

Secondly, the increase has been much the most marked in the months of flush production. Seasonal producers have, therefore, gained most in comparison with the prices obtained under the Agency.

In addition to the members of the Agency, who by 1932-33 formed a comparatively small proportion of producers and were confined to the West, it is probable that most other producers have also gained under the scheme. Apart from producer-retailers and producers who retained their milk for use on the farm, such producers previously made individual contracts with distributors. Only producers whose sales were very level can have obtained prices in

1932-33 for *all* their milk as high as those paid to the Agency by distributors for *liquid* milk supplies. But even this most favourably situated group of producers would only have obtained an average price for the whole year of about 11d. per gallon; and in 1934-35 under the scheme they would have obtained an average pool price of about one-tenth of a penny less. Further, a number of level producers have obtained under the scheme the premium of ½d. per gallon for level production. Since average transport charges for level producers are not likely to have increased much, it seems certain that, as a group, they have obtained higher net returns under the scheme than in the year before it, though some of them, more especially the town cow-keepers, have probably fared worse.

The prices obtained by the more seasonal producers outside the Agency are likely to have been closer to the Agency's pool prices than to the rates agreed by it for the sale of liquid milk only. Such producers must, therefore, have gained considerably as a result of the scheme. Further, those producers—mainly seasonal—who formerly used their milk on farms and who have begun to sell under the scheme presumably have done so because of the greater financial inducements as well as the greater convenience.

It will be seen from Table 12 that the pool prices in the second year of the scheme were higher in autumn and winter and lower in spring and summer than in the first year. These changes were due chiefly to the Secretary of State's amendment, as a result of which liquid milk buying prices were adjusted in the second year of the scheme, being raised by 1d. from November to January inclusive and lowered by 1d. in the four months April to July inclusive. The effect was to benefit level producers at the expense of seasonal producers.

Producer-retailers have probably been least favourably affected by the scheme. The retail price of liquid milk immediately before the scheme was not depressed to the same extent as producers' prices, and producer-retailers were benefiting, in common with other distributors, from the high distributive margin. Under the scheme this margin has been reduced as a result of an increase in the wholesale liquid milk price and, in the East, a decrease in the retail price. Moreover, until the recent decision of the House of Lords, producer-retailers, in common with all other producers have been required to make contributions to the pool in accordance with what we believe to have been the intention of the promoters of the scheme. As an offset to these disadvantages, producer-retailers are protected from the price-cutting which had already begun before the scheme came into force and which might easily have become serious. Furthermore, they are able to dispose of their surplus milk to or through the Board.

The general effects of the scheme on returns to level and seasonal producers appear to be that seasonal producers have gained very considerably on the whole, although they lost slightly in the second year of the scheme as compared with the first, and that

level producers selling wholesale have probably gained to some extent, especially in the second year of the scheme. Those producers who are most likely to have lost, on the average, are producer-retailers.

(ix) Price Effects under the Aberdeen and North of Scotland Schemes.

The income of the price pool under each of the two smaller schemes in Scotland consists primarily of the proceeds of sales of milk for liquid consumption and manufacture (including an allowance for the value of milk manufactured by, or on behalf of, the Boards), together with the contributions of producer-retailers. Under the "basic quantity" system operated in each area, the method of distribution of the income is that each producer is first credited with the full liquid milk buying price for the month on his basic quantity and with the actual realisation price of the remainder. He is then debited with the levy necessary to cover (*a*) administrative expenses and (*b*) the difference between the actual realisations on all basic quantity milk and the amount credited to producers for it, which is due to the fact that aggregate basic quantities exceed aggregate sales of liquid milk. The levy on each producer for these purposes is proportionate to his basic quantity. The resulting price is comparable with the pool price under the two main schemes, except that it is a composite price which varies from producer to producer according to the proportion that his basic quota bears to his total sales. Neither scheme includes any provision for regional differentiation of producers' prices. In both schemes transport is an individual charge upon producers.

The basic quantities allocated to producers are at present based on winter sales at the beginning of the schemes; and although the Boards have powers to revise them, we understand that there is no present intention of doing so. In consequence the more seasonal producers under these schemes are handicapped as compared with similar producers in England and Wales, in that they cannot, by becoming level producers, gain the advantages enjoyed by those who were already level producers at the outset of the schemes. The Aberdeen Milk Agency (the predecessor of the present Aberdeen Board) afforded individual producers the opportunity to increase their quotas on application to the Agency.

Under the main schemes the wholesale price of liquid milk is generally lower in summer than in winter, to the disadvantage of seasonal producers; but that has not always been the case in Aberdeen and the North of Scotland. Under the Aberdeen scheme, however, the contribution to the pool is higher in summer. Under the Aberdeen Milk Agency the price payable on basic quantities was the same throughout the year.

No monthly figures of average returns to producers are available for the pre-scheme period. The monthly average prices paid under the schemes are given in Table 47, on page 334. These are,

of course, averages of the different prices paid to individual producers: the more seasonal producers obtained lower prices, and the more level producers higher prices, than those shown. Under the current price scale of the Aberdeen scheme, level producers have gained, and the more seasonal producers have lost, by the raising of the liquid milk price in August, October, November and December, and the lowering of it in May. Under the North of Scotland scheme the liquid milk price has been raised more in summer than in winter by the adoption of a uniform price throughout the year.

CHAPTER 7.—EFFECTS ON PRODUCTION AND SALES.

(i) The General Position.

It has frequently been suggested, both in evidence before the Commission and elsewhere, that milk production has increased rapidly as a result of the schemes. This view is no doubt based largely on the statistics of *sales* of milk under the two larger schemes, which certainly show a very rapid increase. But it must not be assumed that *production* has increased to the same extent.

The volume of production depends on the size of the cow population and the yield per cow. The following Table shows the annual change during the last five years in the number of cows in England and Wales and in the area of the main Scottish scheme.*

TABLE 13.—Annual Change in the Cow Population.†

As at June 4th.	In England and Wales.		In the main Scottish area.	
	Base, 1930=100.	Variation on previous year.	Base, 1930=100.	Variation on previous year.
		Per cent.		Per cent.
1931	101·8	+1·8	100·2	+0·2
1932	106·3	+4·4	102·5	+2·3
1933	109·3	+2·8	106·4	+3·7
1934	111·0	+1·6	108·4	+1·9
1935	112·6	+1·4	109·6	+1·1

† i.e., cows and heifers in milk and cows in calf, according to official returns; heifers in calf are not included.

The provisional estimates of the cow population for 1936 show that there has been a further decline in the rate of increase in England and Wales to 0·6 per cent. and in the main Scottish area to 0·4 per cent.

* The two smaller schemes in Scotland have not yet been in operation for two complete years. The bulk of the dairy herd in Scotland is in the area of the main Scottish scheme, and it is there that the most important changes are likely to have taken place. The figures include the whole of Argyll, although actually a part of that county is outside the scheme area.

The increase that was taking place in the dairy herds before the schemes came into force continued in the two succeeding years; but the rate of increase was much slower both in England and Wales and in Scotland. These figures do not suggest that the schemes have tended to accelerate the increase of production, though it is possible that without them the rate of expansion in 1934 and 1935 would have been even slower.

Official estimates of the net milk yield are made at the periodic censuses of agricultural production.* At the last census in England and Wales, for 1930-31, the estimated annual average net yield per cow was 11·1 per cent. higher than the estimate made in 1924-25, which implies an average annual increase in the net yield during this period of nearly 2 per cent. The average annual increase in the gross yield also was probably of about the same amount. It may be assumed that since 1930-31 there has been some further increase in the average yield.

Total sales in England and Wales in the second year of the scheme were 16·1 per cent. greater than those in the first year.† The cow population, however, increased by only 1·4 per cent. Unless, therefore, the gross yield per cow increased enormously between 1934 and 1935, it is impossible to attribute the increase in sales primarily to an increase in production.

The more probable explanation is that the increase in sales recorded under the scheme was chiefly due to a change in producers' methods of disposing of their output.‡ From the evidence submitted to us, and from the statistics of sales and contracts in different regions (which are discussed below), it may be inferred that there has been a considerable decline in the manufacture of butter, cheese and cream on farms (see Chapter 10); and it has been suggested to us that in some cases there has been a reduction in the quantities of whole milk fed to stock. Although the low prices of milk products and of store and fat cattle have certainly contributed towards this change in methods of disposal, there can be no doubt that the security of the milk market, the relatively high level of returns and the regularity of returns ensured by the schemes have had a very strong influence. In brief, many producers have found it more advantageous to sell milk off farms and obtain the pool price for it than to utilise it on the farm.

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* The "net milk yield" includes milk sold off farms, milk used for manufacture on farms and milk consumed in farm households or by farm servants, but not milk used for stock-feeding.

† See Table 30 on page 307.

‡ A part of the increase in sales recorded under the English scheme in the second year is due to the inclusion of the output of small producer-retailers who were exempt in the first year. But if allowance were made for this, the percentage increase quoted above for sales recorded under the scheme would only require very slight alteration.

In Scotland the increases in sales have been much less striking.* Total sales increased under the main Scottish scheme by 7·7 per cent. in the second twelve months of the scheme as compared with the first.† Data covering two complete years are not yet available for the two Northern areas, but the increase in total sales for the six months period October, 1935, to March, 1936, as compared with the same period in 1934-35, was 6·6 per cent. under the Aberdeen scheme and 5·3 per cent. under the North of Scotland scheme. There has been a swing from the utilisation of milk on farms in Scotland, as in England and Wales. But since farm manufacture was already less common in Scotland, the effect of the change on the volume of marketed supplies has not been so pronounced as in England and Wales. The cow population also increased less in 1935 as compared with 1934 than in England and Wales.

To sum up, the available data suggest that the production of milk has continued to increase throughout Great Britain since the schemes came into effect. The statistics of cow population suggest that the rate of increase has diminished, but this may have been offset by an increase in yield. In any case it is unlikely that any increase in *production* that is directly attributable to the schemes would account for more than a small part of the considerable increase in wholesale sales recorded under the schemes. On the other hand, it is probable that the considerable increase in *sales* is attributable largely, though not entirely, to the influence of the schemes.

(ii) Changes in Supply Areas.

One of the chief complaints which we have had to consider in respect of the English and the main Scottish schemes is that they have both tended to favour certain areas at the expense of others. The statistics of cow population and of sales in different areas provide some indication of how far changes in the areas of production and of sources of marketed supplies have already occurred or are in progress. These statistics are given in detail in the statistical Appendix, but for convenience percentage variations are quoted in the Tables shown in this Chapter.

Changes in England and Wales.—The changes that have taken place in the cow population and in total sales‡ in the regions of England and Wales are shown in the following Table. The regions are arranged according to the rate of increase in their sales.

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* See Table 32 on page 310.

† Sales in the period December, 1934, to November, 1935, would probably have been greater if the summer had not been exceptionally dry; on the other hand, a considerable quantity of milk was sold outside the scheme, under pre-existing contracts, during the months December, 1933, to March, 1934.

‡ See Tables 36 and 53 on pages 317 and 344.

TABLE 14.—Changes in Cow Population and in Sales in the Regions of England and Wales.

Region.	Cow population.			Total sales under scheme.*
	Variation for three-year interval, 1933/1930.	Variation, 1934/1933.	Variation, 1935/1934.	Variation, 1934–1935/1933–1934.
	Per cent.	Per cent.	Per cent.	Per cent.
Far Western ...	+ 7·3	+1·7	−0·5	+46
South Wales ...	+ 3·9	+1·4	+1·0	+31
Northern ...	+11·2	+2·4	+3·8	+25
North Wales ...	+ 6·2	−0·9	−0·3	+22
Eastern... ...	+12·9	−0·7	+1·6	+19
East Midland ...	+12·4	+2·0	−0·1	+15
West Midland ...	+10·2	+1·3	+0·5	+14
Mid Western ...	+ 8·5	+2·1	+1·3	+14
North Western...	+ 7·2	+1·3	+3·2	+14
Southern ...	+12·2	+4·8	+1·1	+13
South Eastern ...	+13·7	+1·9	−0·4	+ 8
All Regions ...	+ 9·3	+1·6	+1·4	+16

* Including sales by licensed producer-retailers and milk sold under farm cheese makers' contracts, as well as sales under ordinary wholesale contracts.

The statistics of the cow population show that in the following seven regions the number of cows either increased more slowly in the second year than in the first year of the scheme or actually decreased in the second year after having increased in the first :— Far Western, South Wales, West Midland, Mid Western, East Midland, Southern and South Eastern regions. These regions cover the whole of the south and the midlands. In the North Western, Northern, North Wales and Eastern regions the changes were in the opposite direction ; but only in two regions, the Northern and North Western, was there not only an increase in both years, but actually a greater increase in the second year of the scheme than in the first. It would be unsafe, however, to assume that these changes are primarily due to the scheme. The figures are of more significance as showing that there was little, if any, connection between the variations in cow population and in sales. For example, the Far Western region, with the largest increase in sales, showed a decrease in the cow population in the second year ; and in one of the two regions where the cow population increased most in the second year (the North Western region) sales increased at less than the average rate.†

† The provisional estimates of the cow population for 1936 indicate that in several of the regions the tendencies of the preceding two years have not been maintained. For example, in the Eastern Region there was a decrease of 1·9 per cent. in the cow population ; the rate of increase declined in the Northern Region ; and in the Far Western and East Midland Regions there was an increase more than sufficient to offset the decrease of the preceding year. The only region to show a decrease both in 1935 and in 1936 was the South Eastern, where the cow population declined by 1·0 per cent. in 1936 as compared with 1935.

Sales increased in all regions in the second year of the scheme. The increase was greatest in the most outlying regions, namely the Far Western, Northern and North and South Wales regions. Much the smallest increase was in the South Eastern region, which surrounds London, while in the six regions lying geographically between the South Eastern and the four most outlying regions sales increased at rates not differing greatly from the average rate of increase for England and Wales as a whole. It appears, therefore, that, simultaneously with the general increase in the marketed supplies of milk under the scheme, there has been a change in the relative importance of the areas of supply. Broadly speaking, regions have gained in importance as suppliers of milk according to their remoteness from London.

These statistics showing the changes in the volume of sales in the various regions strongly support the view that the increase in sales is due mainly to a change-over from farm manufacture or utilisation. The increase in sales has been greatest in regions where the amount of milk sold per cow was, and still is, relatively low in proportion to the number of dairy cows. The following Table will help to illustrate this and a number of other points :—

TABLE 15.—Changes in Volume of Sales and Numbers of Contracts in the Regions of England and Wales.

Region.	Total sales under scheme. Variation, 1934–35 / 1933–34.	Total sales per cow in 1934–35. *	Contract sales off farms.† Variation, 1934–35 / 1933–34.	Number of contracts.† Variation, 1934–35 / 1933–34.
	Per cent.	Gallons.	Per cent.	Per cent.
Far Western... ...	+46	220	+52	+49
South Wales... ...	+31	213	+36	+22
Northern	+25	259	+31	+21
North Wales... ...	+22	180	+33	+20
Eastern	+19	296	+22	+11
Aggregate of "High Increase" Group of Regions	+28	238	+34	+27
East Midland ...	+15	404	+17	+ 2
West Midland ...	+14	334	+17	+ 4
Mid Western... ...	+14	514	+15	+ 3
North Western ...	+14	463	+19	+ 6
Southern	+13	461	+14	+ 4
South Eastern ...	+ 8	471	+ 9	− 1
Aggregate of "Low Increase" Group of Regions	+13	448	+16	+ 4

* These figures are obtained by dividing the totals of sales under the scheme by the official figures for the totals of cows and heifers in milk and cows in calf. Since "total sales" do not include milk sold by exempted producers or milk used on the farm, except under farm cheese makers' contracts, this column does not give an index of *production* per cow. † Excluding farm cheese makers' contracts.

In the first place, it will be seen that in the five regions which increased their total sales at more than the rate for the whole area (16 per cent.—see Table 14) the sales per cow averaged little more than half those in the other group; and that in each one of these five regions the sales per cow were considerably lower than in any region of the other group. The explanation, no doubt, is that the first group of regions includes the chief areas specialising in live-stock breeding and rearing, in which large quantities of milk are retained for feeding purposes, and also large areas where the farm manufacture of butter and cream has been a relatively important branch of dairying. Thus the Far Western and North and South Wales regions, where contract sales increased most rapidly, are all regions where farm butter making (and in the Far Western region cream making) have been very commonly practised. In all these regions also stock breeding and stock rearing are fairly important. In the Northern region stock breeding and stock rearing are predominant, and in some parts butter making has been customary. In the Eastern region breeding is not important, but farm butter making has been fairly common. On the other hand, in the six regions where sales increased relatively slowly, the production of milk for sale under wholesale contracts was a far more important branch of farming than in the group of regions just mentioned.

Secondly, the increase in total sales was not due to increases in retail sales by producer-retailers or to sales under farm cheese makers' contracts, but almost entirely to increases in sales off farms under wholesale contracts. This is evident from Table 36 which shows the volume of milk sold by producer-retailers and under farm cheese makers' contracts.

In some regions retail sales by producer-retailers actually declined in the second year. Where they increased, they did so at a markedly lower rate than total sales. For the scheme area as a whole, the increase in retail sales by producer-retailers accounted for only 2·4 per cent. of the increase in total sales; and in no region did it account for more than 8·8 per cent. of the increase.*

Sales under farm cheese makers' contracts declined in the second year of the scheme, both in the scheme area as a whole and in seven of the regions. In three regions there was an increase, but the quantities involved were so small as to represent a negligible part of the increase in the total sales of these regions.†

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* Such increase as took place in retail sales by producer-retailers under the scheme was due largely to the inclusion, during the second year, of producers who were previously exempted. Retail sales, of course, account for only a part of the total output of producer-retailers. It has been estimated that, in 1933–34, 40 per cent. of the output of all producer-retailers, including those exempted, was sold on wholesale contracts and that 17 per cent. was retained for stock feeding or manufacture.

† Sales under farm cheese makers' contracts represented only 1½ per cent. of total sales in 1934–35. The amount sold in this way decreased by 26 per cent. in this year as compared with 1933–34, although the farm cheese makers' contracts were only made available during the last six months of 1933–34.

It is therefore evident that the increase in total sales during the second year of the scheme is accounted for almost entirely by the increase in contract sales off farms shown in Table 15; and this applies not only to the scheme area as a whole, but also to the individual regions.

Thirdly, a comparison of the last two columns of Table 15 shows that the number of contracts for the sale of milk off farms has increased much more rapidly, in relation to the volume of contract sales, in the "high increase" group of regions than in the remainder. In the former group these sales increased in volume by 34 per cent. and the number of contracts by 27 per cent.; but in the latter group the volume of sales increased by 16 per cent. and the number of contracts by only 4 per cent. This striking difference suggests that the increase in contract sales was due, in the former group of regions, primarily to new contracts made by producers who had formerly used their whole output on their own farms, and in the latter group primarily to an expansion of sales off farms, and possibly also of output, by producers already selling on contract. This conclusion contrasts strongly with the widely-held view that increased *production* in the manufacturing areas has been the chief cause of increased sales under the scheme. Production has probably increased more in the regions that are considered as essentially liquid milk regions than in those where manufacture was most common.

Fourthly, the *rates* of increase of sales in the different regions are misleading if taken, without reference to the actual volume of milk sold from each region, as indicating the extent to which the sources of supply have changed. The details of the changes in the volume of total sales are shown in Table 36. Here it is sufficient to point out that the increase in total sales in the five regions where the rate of increase was above the average was only 47 million gallons, while the corresponding increase in the six remaining regions was 89 million gallons. As the total sales for the whole scheme area in 1934-35 were 981 million gallons, there has not yet been any very marked change in the balance between the sources of supply.

The changes in the volume of sales and in methods of disposal that have been indicated cannot be attributed entirely to the influence of the scheme. Certain factors, notably the development of transport facilities and the depression of the markets for milk products and beef, were already operating in the years preceding the scheme, and as a result the areas traditionally supplying the liquid milk market were meeting with increasing competition from

other districts. But it can scarcely be doubted that the advantages assured by the scheme to the less conveniently situated producers accelerated the previous tendencies.

Finally, it is impossible to form any very definite conclusions as regards the prospects for the future. In the " high increase " group of regions the average sales per cow, as estimated in the Table on page 62, are still little more than half the average for the " low increase " group. Although the yield per cow in the former group of regions is no doubt lower (on account of the greater prevalence of herds of beef breed or type) it is probable that these regions have relatively large reserves of milk that might be sold under the scheme. It is not unlikely that there will be some further increase in the sale of milk off farms by producers who have hitherto utilised their milk on their farms, and that the areas which did not begin to compete seriously in the market until recent years will continue to gain ground as compared with those which have been long established in this market.

How far the balance between the sources of supply will continue to shift must depend largely on the prospects of the beef industry and of the milk products market, the willingness of farmers (and their families) to continue farm manufacture, the level of prices paid under the scheme and the Board's price policy. A price policy which had the effect of bringing producers' returns in the different regions more closely together might be expected to stimulate further expansion in the " high increase " group.

Changes in Scotland.—In Scotland the most important question, as regards the local effects of the schemes on the volume of production and sales, relates to the eastern and western parts of the main Scottish scheme area. The following Table gives statistics (corresponding to those already given for England in Tables 14 and 15) for the group of counties covered by the East of Scotland Milk Producers' Federation,* for the remaining counties, and for the whole area. It should be remembered that the " West " outweighs the " East " by 5 or 6 to 1 as regards the total volume of sales.

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* The area served by the East of Scotland Producers' Federation is understood to consist of the counties of Angus, Berwick, Clackmannan, East Lothian, West Lothian, Mid Lothian, Fife, Kinross, Peebles, Perth, Roxburgh and Selkirk. The remaining counties are Argyll, Ayr, Bute, Dumfries, Dunbarton, Kirkcudbright, Lanark, Renfrew, Stirling and Wigtown. A part of Argyll is not included in the scheme area. No allowance has been made for this in the figures quoted, but the effect is negligible.

TABLE 16.—Changes in Cow Population, Volume of Sales and Numbers of Producers selling through the Board in the East and the West of the main Scottish Scheme Area.

	Cow population.			Total sales under scheme*.	Total sales per cow§ in 1934–35.	Sales off farms through Board.*†	Number of producers selling off farms through Board. ‡
	Variation for three-year interval, 1933/1930.	Variation, 1934/1933.	Variation, 1935/1934.	Variation, 1935/1934.		Variation, 1935/1934.	Variation, 1935/1934.
	Per cent.	Per cent.	Per cent.	Per cent.	Gallons.	Per cent.	Per cent.
East	+11·4	+ 2·0	− 0·8	+ 1·8	247	+ 8·2	+14·1
West	+ 4·6	+ 1·9	+ 1·9	+ 6·5	444	+11·1	+ 5·8
Whole area ...	+ 6·4	+ 1·9	+ 1·1	+ 5·7	391	+10·7	+ 7·0

* The comparison is for the eight months April to November, inclusive. A number of contracts outside the scheme were still operative during the months December to March of the first year, so that a comparison of the twelve months period would be misleading.

§ These figures are obtained by dividing the totals of sales under the scheme by the official figures for the totals of cows and heifers in milk and cows in calf. Since "total sales" do not include milk sold by exempted producers or milk used on the farm, except under farm cheese makers' contracts, this column does not give an index of *production* per cow.

† "Sales off farms through Board" are comparable with "Contract sales off farms" in Table 15.

‡ The comparison is between the averages of the numbers of producers, other than farm cheese makers, selling through the Board in May and November of each year.

This Table shows *in the first place* that the dairy herd increased both in the East and in the West in the three years immediately preceding the scheme, but considerably more rapidly in the East. Under the scheme the rate of increase has been checked, and in the East there was actually a decline in the second year**. As suggested with regard to England and Wales, changes in the numbers of the dairy herd are not to be attributed wholly to the influence of the scheme.

Secondly the Table shows that both in the East and in the West total sales under the scheme have increased at a lower rate than in any of the English regions. Sales have increased most in the

** The provisional estimates of the cow population for 1936 show the following changes as compared with 1935:—

East	− 0·6
West	+ 1·2
Whole area	+ 0·7

The tendencies shown in 1935 have thus continued in 1936.

West, which includes the districts where production is relatively seasonal, although the average sales per cow were already far higher in the West than in the East. The position is similar to that in England and Wales in that the increase in sales has been most rapid in those parts of the scheme area where production is most seasonal; but there is a striking contrast with England and Wales in that the West of the Scottish scheme area, as the high average sales per cow show, was already highly developed in the production of milk for sale off the farm. The West in indeed more comparable with the Mid Western region of England than with the Far Western or the North Wales or South Wales regions. Like the Mid Western region, it falls within a radius of about 100 miles of the main centre of consumption and is well provided with creameries and factories.

The East, on the other hand, where the volume of sales increased very little in the second year of the scheme, is not a traditionally dairying country. There has always been a fair amount of production by producer-retailers near Edinburgh and the other large towns, but arable farming rather than dairy farming has been characteristic of the East. The considerable increase in the number of cows in the East during the years immediately preceding the scheme can be attributed largely to the fact that conditions in other branches of farming were relatively unfavourable and caused a transfer to milk production. There are several factors that help to account for the small figure for total sales per cow in the East; but there are obvious possibilities of increasing the volume of sales without an increase in the cow population.

Thirdly, such increases in total sales as took place in the second year are due both in the East and in the West to the increase in sales off farms through the Board. The remaining part of the total sales, including sales by producer-retailers and producer-wholesalers and milk used for farm cheese-making, declined in both areas by between 7 and 8 per cent.*

Fourthly, the East and West have differed considerably as regards the rate of increase in sales off farms through the Board and in the numbers of producers making such sales; but in both groups of counties the rates of increase in sales were lower than in any of the English regions except the South Eastern. In the East the volume of sales of this kind has increased in smaller ratio than the number of producers making them; in the West the reverse obtained, for the volume of sales increased nearly twice as fast as the number of producers.

One reason for this difference is that large numbers of producer-retailers (and producer-wholesalers) have sold part of their output through the Board and that the numbers who did so increased considerably in the second year of the scheme. These special

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* See Table 32 on page 310.

categories of producers formed, and still form, a large proportion of the total in the East, but a relatively small proportion in the West. The larger increase in the volume of sales in the West is, no doubt, to be accounted for in part by the increase in the cow population; in part by the diversion of milk from farmhouse cheese and butter making, which is much more important in the West than in the East; and possibly also to some small extent by the diversion of milk from stock feeding. It is not unlikely that there has also been some increase in the West due to more intensive production under the improved conditions afforded by the scheme.

To sum up, the general position in the main Scottish area appears to be that in the East both total sales and total production have changed relatively little, although there has been some increase in the volume of milk sold through the Board. In the West the chief effect has been to increase the volume of sales by producers who were already selling through the Board in the first year of the scheme, partly on account of the diversion of milk from other channels and partly by reason of some actual increase in production. The East has not gained ground and may even have lost a little, but the West has made noticeable progress.

In the Aberdeen and North of Scotland areas, for which data covering two complete years have not been available, it is unlikely that any important changes in the location of production have occurred as a result of the schemes. The Aberdeen area is very small, and both areas are fairly homogeneous in production and marketing conditions. The agreements between the three Boards in Scotland not to sell milk in each other's areas serve to protect the smaller schemes from the pressure of the increasing supplies in the West of the main Scottish area.

Minor local variations.—The foregoing discussion has dealt with the changes in production and disposal in regions in England and Wales and groups of counties in Scotland. Similar analysis for smaller areas is impossible because the statistics are not available.

We have, however, been supplied with details of a number of cases in which producers situated in and near towns and specializing in the liquid market have been forced to retire from business, and conversely, of big extensions of dairying stock and equipment by producers in areas more distant from large consuming centres. But isolated examples of this kind are not of much value as evidence of the extent of any changes that may have taken place. In any form of business there are always units that are being forced out of production and others that are expanding; and in recent years such changes must have been all the more common in dairy farming on account of improvements in transport facilities and of the depression in other branches of farming. The schemes, therefore, are not necessarily to be held responsible for cases of failure or success on the part of individuals or even groups that have occurred in the last two or three years.

The changes to which we have drawn attention have not, however, affected uniformly all parts of the regions or groups of counties in which they have taken place, nor all classes of producers

within them; and to some extent the schemes are responsible for the differences. For example, although the general rate of increase of sales was not particularly high in either the North Western or the Mid Western region, we have been told that there have been large increases in the numbers of contracts made in certain districts of those regions, where farm cheese making and butter making were formerly general. In some other regions, of which South Wales is an example, although there was a large increase in the number of contracts for the region as a whole, it is unlikely that there has been any significant increase in the number of contracts made by producers situated close to the towns, because they would already have been selling all their milk for liquid consumption. The increase must have been in those parts of the regions where calf rearing or butter making was prevalent before 1934.

(iii) Effects on Seasonality.

England and Wales.—No estimates which are comparable with the statistics now kept and published by the Boards are available to show how sales varied during the year in the pre-scheme period. We are indebted to a large distributing concern in the south of England which handles about one-eighth of the total milk sold off farms in Great Britain for permission to inspect the statistics of its throughput for some recent years. This sample at least gives some indication of the position in the southern half of England.

During the four years 1931-32 to 1934-35 inclusive, this firm purchased, respectively, 44, 45, 44 and 43 per cent. of its total annual supplies of milk during the six winter months October to March. The corresponding proportions in respect of all *contract* sales made under the scheme in 1933-34 and 1934-35 were 44·4 and 45·4 per cent. respectively. It seems therefore that there was little change in the proportions of summer and winter purchases of milk in the two years following the inception of the English scheme, as compared with the two preceding years.

The seasonal incidence of *total* sales under the scheme in the first two years is shown in the following Table :—

TABLE 17.—Total Sales, by Regions, in England and Wales in the Six Winter Months October to March as percentage of Total Annual Sales.

	"High Increase" * Regions.			"Low Increase" * Regions.	
	1933–34.	1934–35.		1933–34.	1934–35.
Far Western ...	39·6	42·3	West Midland...	42·4	43·3
South Wales ...	42·9	44·3	Mid Western ...	41·9	44·0
Northern ...	44·3	45·9	East Midland...	46·6	47·1
North Wales ...	34·9	41·4	North Western	44·2	45·7
Eastern ...	46·8	48·0	Southern ...	47·6	48·6
			South Eastern	47·9	48·4

All Regions : 1933-34 = 44·3
1934-35 = 45·6

* See page 62.

Total sales in the scheme area as a whole were somewhat less seasonal in the second year than in the first. But the increase in the proportion of winter sales to annual sales has been greater in the group of regions where sales have increased most. Two of the regions where sales have increased most rapidly (the Northern and Eastern) already sell a larger proportion of their milk in winter than some of the " low increase " regions.

Although the statistics of only two years of operation under the scheme are an insufficient basis for any final conclusions, it may be that there is some tendency for the seasonal trend of sales to become more level and also more uniform as between the different regions.

Main Scottish area.—There are no satisfactory data for a comparison of the present seasonal incidence of production in the main Scottish area with that of the pre-scheme period, but it is unlikely that there has been any very considerable change. The following Table shows the seasonal incidence of supplies since the scheme came into effect.

TABLE 18.—Total Sales in the main Scottish Scheme Area in the Six Winter Months October to March as percentage of Total Annual Sales.*

	1934–35.	1935–36.
East	46·7	46.9
West	41·6	41.3
Whole area	42·5	42.2

* The twelve months period April-March has been used on account of the considerable volume of contract sales that were still being made outside the scheme during the first six months of the scheme. The winter period used therefore follows the summer period instead of preceding it as in the corresponding Table for England and Wales (Table 17). Consequently the Tables are not entirely comparable.

Aberdeen and North of Scotland.—The information at present available is insufficient to make any comparison with the pre-scheme period, or to show any changes in the seasonal incidence of supplies that have taken place or are in progress. In the Aberdeen scheme area, at least, the price arrangements under the scheme are very similar to those which prevailed in the pre-scheme period. It is unlikely that there has been any appreciable change in the seasonal incidence of supplies in either area.

(iv) Effects on Quality.

As the following paragraphs show, there have been very considerable increases in the numbers of graded milk producers since the schemes came into force. These increases no doubt reflect an improvement in the quality of the supplies of many of these producers, but it is hardly to be expected that the schemes could yet have succeeded in effecting any marked improvement in the quality of supplies generally.

It is an unfortunate fact that improvement in the quality of supplies from producers is not necessarily passed on to consumers. If high-quality supplies are bulked with milk of low quality the advantages of clean production are largely lost. It has even been suggested to us that producers who know that their milk is to be bulked with the milk of other producers feel less incentive to maintain high standards and that, as a result, there may have been some lowering of quality in areas where the proportion of milk passing through depots has increased.

Certified and Grade " A " (T.T.) milk.—The numbers of Certified and Grade " A " (T.T.) licences issued under the Milk (Special Designations) Orders have increased slowly since the system of licensing was started. As the following Tables show, however, there has been a noticeable change in the rate of increase in the number of Grade " A " (T.T.) herds since the marketing schemes came into operation :—

TABLE 19.—Numbers of Certified and Grade "A" (T.T.) Herds in England and Wales.

Year to 31st March.	Certified herds.	Grade " A " (T.T.) herds.
1931	174	238
1932	196	257
1933	216	258
1934	239	328
1935	293	448
1936	362	686

Sales of Certified and Grade " A " (T.T.) milk have been exempted from control under the English scheme, and the increases since 1933 are to some extent due to the fact that licensing carries exemption with it.

Under the Scottish schemes, sales of these grades of milk are not exempt, but special price premiums are payable for them. As in the case of England and Wales, the number of Certified herds has increased slowly, but there has been a marked increase during the last two years in the number of Grade " A " (T.T.) herds :—

TABLE 20.—Numbers of Certified and Grade "A" (T.T.) Herds in Scotland.

Year to 31st December.	Certified herds.	Grade " A " (T.T.) herds.
1931	87	92
1932	103	103
1933	119	109
1934	117	164
1935	122	290

The Seventh Annual Report* of the Department of Health for Scotland, from which these figures are extracted, comments on them as follows :—

> " It will be seen that the biggest increases in the number of licensed tubercle-free herds since the inception of the graded milk system took place during 1934 and 1935. These sudden increases can be attributed almost entirely to the enlargement of the market for tubercle-free milk through the operation of schemes for the supply of milk to school children at reduced rates."

The Attested Herds schemes.—The Milk Act, 1934, made funds available for the cleaning up of herds, and the English and Scottish Attested Herds schemes were started for this purpose. They each provided for the payment of a special bonus of a penny per gallon on milk from attested herds, but only subject to certain conditions, one of which was that the milk must have been sold under the schemes.

Most of the owners of herds suitable for attestation are producers of either Certified or Grade " A " (T.T.) milk. In England and Wales producers of these grades, being exempt from the marketing scheme, generally sell independently of it and would not benefit by coming under the Attested Herds scheme. In Scotland the attested bonus was originally payable to all Certified or Grade " A " (T.T.) producers owning attested herds, but only in respect of that quantity of their milk which was sold at lower prices than those prescribed by the Boards for Grade " A " (T.T.) milk. The Scottish scheme has been amended, however, as from 1st July, 1936, so that all milk from attested herds sold under the marketing schemes now qualifies for the bonus of 1d. per gallon, irrespective of the price at which it is sold.

Little use has hitherto been made of the Attested Herds schemes. At 31st July, 1936, only 261 herds had been attested in Great Britain, of which 117 were in England and Wales and 144 in Scotland. This is no doubt due in part to the circumstances mentioned above; but probably producers have also been deterred from participating in them by the high technical standards that have been set.

The Accredited Roll.—The English scheme specifically gave the Board power to prepare a register of " accredited producers " as soon as it was thought practicable and to pay to producers whose names were on the register a " guaranteed quality premium." No action was taken by the Board under this provision of the scheme; but on the passing of the Milk Act, 1934, the Board made use of the powers conferred on milk marketing Boards by Section 12 of that Act to prepare an " accredited producers scheme." After prolonged negotiations with the local authorities this scheme was launched on 1st May, 1935. Every producer who was able to obtain a Grade " A " licence under the Milk (Special

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* Cmd. 5123.

Designations) Order, 1923, became entitled to registration on the Accredited Roll and to receive a bonus of 1d. per gallon above the ordinary pool price for his region. The bonus is paid from the general funds of the Board, thus reducing the amount available for the regional pools.

The effect has been that the number of producers holding Grade "A" licences has increased very rapidly. In the period between the initiation of licensing under the Milk (Special Designations) Order, 1923, and the commencement of the Accredited Roll, the number of Grade "A" licences held had reached about 800. In the course of the following twelve months it rose to some 16,000, and is still increasing. This rapid increase must not be taken as indicating a corresponding rise in the standards of production. No doubt many producers who have acquired Grade "A" licences during the last year were previously producing under conditions equal, or nearly equal, to the Grade "A" standard, but had not taken out licences because at that time the licences carried with them no guarantee of a premium. Nevertheless it must be accounted a great step forward that a large and growing number of producers should voluntarily accept regular supervision of their herds and conditions of production. About one-third of all the milk sold under the English scheme is now Accredited milk; and as a result some distributors are already in a position to refuse all contracts except for Accredited milk.

Nothing comparable with the English Accredited Roll has so far been operated in any of the Scottish areas, but we understand that the main Scottish Board has under consideration the question of paying quality premiums in respect of Grade "A" and higher grades of milk.

Butter-fat content.—Under the English scheme no detailed provisions have been made as regards the butter-fat content of milk. Milk must be warranted to be sold with all its cream, and a contract may be terminated by the buyer if he can show that the presumptive legal minimum standard* has not been maintained.

Under the main Scottish scheme a minimum standard of 3·5 per cent. butter-fat has been fixed for the months August to January, and 3·4 per cent. for the months February to July. A deduction of $\frac{1}{4}$d. per gallon may be made from the producer's price in respect of every 0·1 per cent. of fat deficiency in milk supplied by him. We are informed that, before the scheme came into force, milk was frequently bought in manufacturing areas on the basis of its butter-fat content, and that standards of 3·4 per cent. and 3·6 per cent. were fixed for summer and winter respectively. Producers were credited or penalised for variations from these standards, so that an incentive was given to the production of milk with a high percentage of butter-fat. It has been urged, on behalf of

* Under the Sale of Milk Regulations, 1901, milk containing less than 3·0 per cent. of fat is presumed to be adulterated until the contrary is proved.

manufacturers, that the change of system has already led to a falling-off in the butter-fat content; but we are not aware of any comprehensive data on this point.

The Aberdeen Board has informed its producers that they are expected to supply milk having not less than 3·3 per cent. of butter-fat and that it reserves the right either to refuse acceptance of any milk below this standard, or to pay for it at a lower rate. The North of Scotland Board deducts ½d. per gallon for every 0·05 per cent. deficiency below 3·3 per cent., but no premiums are payable for butter-fat in excess of this proportion. Milk of less than 3·0 per cent. butter-fat is rejected.

There are obviously serious difficulties in working a system of premiums for butter-fat content where there are not facilities for testing each producer's supplies. Until the Boards have such facilities, it would be unfair to pay premiums for butter-fat content.

(v) Effects on the Efficiency of Production.

It is obviously still too early to attempt to assess the effects of the schemes on the various technical factors making for production efficiency, such as the average size of dairy herds, the degree of specialisation in milk production, feeding practices, and the yield per cow. But it is possible to indicate at least certain general directions in which the schemes have influenced, or are likely to influence, the efficiency of production.

Under the English scheme the bonus paid on Accredited milk must help to raise the standard of technical efficiency; for it is necessary, in order to obtain and keep a Grade " A " licence and thus to secure the Accredited milk premium, to maintain a satisfactory standard of herds, premises and equipment. Through its journal, the English Board is also doing useful educational work on such subjects as feeding and dairying technique. In particular it has constantly stressed the need for improving the quality of milk; and numerous educational articles have indicated how producers can raise their standards. Such propaganda, reaching some 165,000 producers at regular intervals must, in time, have a very considerable effect.

Further, some of the Boards have financed extensive investigations of milk production costs and the economics of dairy farming, which are being conducted on a uniform system by advisory agricultural economists. Investigations of this kind should, in due course, enable periodical comparisons to be made between the relative efficiency of different types of production and the results obtainable from different producing areas. They should also provide invaluable data on which production policy might be guided so as to promote greater efficiency.

Milk recording is important as a means of raising the level of efficiency in dairy farming. The Boards have not taken steps to encourage registered producers to participate in milk recording schemes, but have regarded the matter as one that should be left

entirely to individual choice. It is possible, however, that the marketing schemes themselves have helped to strengthen the milk recording movement. In England and Wales there was an unbroken decline in the number of members of milk recording societies and of cows recorded during the seven years preceding the scheme. But in the first year of the scheme there was a slight increase in the number of members and an increase of 4 per cent. in the number of cows recorded. The Report on the Livestock Improvement Scheme for 1934-35* states that :—

> " The increase in membership over last year may be a sign that the financial stringency that has caused so many dairy farmers to resign from Milk Recording Societies in the past few years, and has rendered so difficult the recruitment of new members, is not now so serious."

In Scotland the number of herds recorded by the Milk Records Association has increased each year since 1931.

Production methods.—A more controversial question is whether the changes that the schemes have produced, or are tending to produce, in the balance between different types of production and different areas are changes in the direction of more efficient production or the reverse. We have seen that, under both the English and the main Scottish schemes, the more outlying areas of production have gained ground as suppliers of milk relatively to those closer to the main centres of consumption; and within each area the more outlying producers have probably gained in a similar way. But the increased sales from such areas and producers have so far probably been due primarily to a change in methods of disposal, and not to any considerable increase in production. They could not therefore be said to indicate, as yet, a gain for lower-cost production, even if it were certain that the cost of production in the more outlying districts were lower.

In connection with questions of production efficiency, the conflicting claims of the more intensive producers and the less intensive producers deserve consideration. Producers situated fairly near towns who wish to maintain production at a very even level usually practise an extremely intensive system of production known as the " flying stock " system. Fresh in-milk or down-calving cows are bought, kept for one or two lactation periods and then sold off, often for slaughter; and a regular supply of milk is ensured by adjusting the time of purchase. Producers of this kind, who may be regarded as the extreme type of high-cost producer, claim that theirs is the most efficient method of production for the liquid milk market. They say that of necessity they must buy only the best cows, maintain good premises and equipment and use first-class technical methods; and that many of the less intensive producers have not the necessary experience for supplying the liquid market and are less particular in their methods.

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* Journal of the Ministry of Agriculture and Fisheries, December, 1935, page 871.

The less intensive producers frequently have a much more seasonal production than the intensive producers. They may, and often do, buy cows in order to maintain their herds at strength, but usually purchased cows are kept for several lactations ; and in so far as level production is wanted, it is obtained by arranging the times of calving. Many of them breed their own stock, especially in the west of England, Wales and the south-west of Scotland.

The contention of such producers is that their cows are living under much more natural and healthy conditions; that their technical methods are at least as good as those of more intensive producers ; that where cows are bought they are retained in the herd for a longer period, so that both the rate of depreciation and the risk of spreading disease are reduced ; and that where herds are reared it is possible to eradicate diseases such as tuberculosis and to reduce the risk of infection.

We have received opinions from a number of experts, most of whom are agreed that the " flying stock " system must assist the spread of disease ; that it is a wasteful method of production, which involves undue " forcing " and a high rate of depreciation on the cows ; and that the waste is all the greater if, as the supporters of the system contend, only the best stock is bought. It is urged that the maintenance of herds by careful breeding is desirable ; and that there is no reason why production by the less intensive producers should in any respect be less efficient than production under the " flying stock " system. The weight of evidence appears to be strongly against the " flying stock " system ; and if, as is alleged, the practice of that system is being handicapped as a result of the schemes, this would not appear to be contrary to the interests of efficiency in dairy farming, but rather the reverse.

There may be some truth in the charge made by producers in the inlying regions that those cattle breeders and feeders in the outlying regions who have recently been attracted into the milk market have not the necessary experience or adequate equipment for liquid milk production ; but there are also cases in the less remote regions, e.g. in the East of Scotland and in some of the eastern counties of England, of arable farmers who have turned to milk production in recent years and who have still to reach a high standard of technical skill in dairying. Producers of this class, in areas where average returns have fallen, may find it difficult to continue in milk production unless they improve their technique.

A point which has been strongly urged by producers who were regular suppliers of the milk market before the schemes came into effect, and who traditionally have worked on a level production system, is that level production ought not to be penalised for the benefit of seasonal production, because the latter method is relatively inefficient as a means of supplying the liquid milk market. But there is no indication that the effect of the schemes has been to make level production in general less profitable than seasonal production : indeed it appears that in some of the more seasonal regions

there is a tendency for producers to turn from seasonal to more level production.

There seems to be little evidence as yet as to the particular effects on production efficiency of the basic quantity system, as operated under the Aberdeen and North of Scotland schemes. If, however, the quotas are operated in such a way as to secure a prescriptive right to existing producers, some at least of the incentive to maintain and increase efficiency will be removed.

Our views on the actual and prospective effects of the present schemes on the efficiency of production may be summed up as follows. In England and Wales and the main Scottish scheme area some direct efforts have been made by the Boards to improve efficiency in dairy farming; but much remains to be done. The less direct effects of these schemes have been to continue certain changes in the types and location of production that were already in progress before the schemes began. On the whole, it is likely that these changes are in the direction of cheaper and better production. The general effect of the two smaller schemes has probably been to slow down changes of this kind; and no direct steps appear to have been taken to promote greater efficiency.

(vi) Effects on Other Branches of Farming.

The relations between dairying and other branches of farming, and consequently the reactions of the milk marketing schemes on branches other than dairying, are many and complex. Before the schemes came into force the relative profitableness of dairying and the possibilities of development had given some relief to farmers engaged in the more depressed branches of agriculture by providing an alternative use for their land and labour.

Since 1933, however, there appears to have been some improvement in certain of those branches of agriculture which are least closely connected with milk production, and the chief influence of the improved market for milk under the schemes has been upon the cattle industry. On the one hand, the milk marketing schemes have assisted the cattle breeding industry by strengthening the market for dairy stock: in 1934, before the introduction of the subsidy on fat cattle, there was a marked contrast between the prices of dairy cattle and those of fat and store cattle. On the other hand, the steady expansion of the dairy herd has tended to increase the number of fat cows to be disposed of as a by-product of the dairy industry. With current rates of turnover in the dairy herds, these animals form a large proportion of the total supply of fat stock, and since their quality for beef purposes is inferior, they tend to weaken the market for home-killed beef.

The milk marketing schemes have undoubtedly assisted to maintain economic and financial stability in the agricultural industry as a whole; but they have also been responsible for some technical changes in the industry. Before the schemes were introduced, the relative attractions of the milk market were tempting some farmers

to turn from the production of store or fat cattle to the sale of milk, and consequently to change the type of their stock from the beef to the dairy breeds. In other cases, probably more frequent, farmers with dual-purpose herds were led to breed more towards the dairy type of stock. Apparently the schemes have strengthened both of these tendencies; and in some districts they seem to have discouraged the raising of young stock.

Where the raising of dual-purpose cattle was combined with the use of milk on the farm for making butter, it was the common practice to use the separated milk for calf feeding and also for pig rearing. With low prices for butter and for young stock on the one hand, and with better conditions in the milk market on the other, there has been a strong inclination to change from stock raising to the direct sale of milk wherever suitable transport facilities were available. The effect of this change must be to reduce the market supply of cattle, and it has probably already caused some reduction in the number of dairy cattle that can be drawn upon by the more intensive of the milk producing areas.

It has also been suggested to us, notably by the English Board, that the scheme has encouraged another change in connection with breeding, namely, a reduction of the quantities of whole milk fed to young stock. Other evidence has suggested that some deterioration in condition of young stock has been caused by this change. There is obviously a temptation to economise in feeding milk when every gallon sold off the farm will bring in an assured and almost immediate return. But we doubt whether there has been any very serious change of this kind which will be more than short-lived. In Scotland, we are informed, breeders would be most unlikely to cut down the quantity of whole milk fed to young stock.

Most of the remaining branches of farming are less closely connected with dairying, and the effects of the scheme on them have been less direct. The economy of pig feeding and to a less extent of poultry feeding, however, must have been affected on farms where skim milk and whey were formerly used, but are now no longer available. In most parts of the country dairying has maintained its position as one of the most remunerative departments of farming, and for this we consider the schemes are largely responsible. It must, therefore, still tend to attract land, capital, enterprise and labour from other branches, and perhaps in particular from the raising and fattening of stores for the beef market; but it is to be hoped that improvements in the conditions in those other branches will help to maintain equilibrium.

CHAPTER 8.—EFFECTS ON LIQUID MILK PRICES.

One of the most serious difficulties which beset the milk producing industry in the years immediately preceding the approval of the schemes was the prevalence of undercutting in the liquid milk market. That difficulty, its causes and the conditions it created,

which are reviewed in the Report* of the previous Reorganisation Commission (for England), called for a more effective system of price control if the breakdown of the market were to be averted. In this respect the milk marketing schemes appear to have achieved their purpose. It is no longer permissible for registered producers to sell milk below the prices prescribed by the Boards. Enforcement is secured by the provision of the wholesale contracts requiring all payments for milk bought on contract to be made to the Boards. The producing industry is thus assured of receiving the full price for all supplies sold for liquid consumption. At the same time distributors are no longer able to buy cheap and sell in the higher-priced liquid market, so that they, too, are protected against undercutting. From this point of view the schemes have given stability in the liquid milk market, to the general advantage of the industry. The result has been to increase the level of prices payable for liquid milk by consumers.

(i) The General Level of Wholesale Prices.

Wholesale buying prices of milk for liquid consumption, known under the English scheme as the " regional prices " and under the Scottish schemes as the " standard prices," are shown for the period since the inception of the various schemes in Table 40 on page 323, and have been discussed briefly in Chapter 4. Like the corresponding pre-scheme prices, these prices include delivery to the buyer.

In England and Wales the unweighted average of monthly prices rose from approximately 13·8d. per gallon in the first year of the scheme to 15·1d. in the second year. As a result of the decision of the Minister following the Report of the Committee of Investigation, the average price for the year 1935-36 was fixed at 15¼d. per gallon, representing an increase of nearly 1½d. per gallon, or over 10 per cent., on the price in the first year of the scheme. In the main Scottish area the unweighted annual average price has remained at 14d. per gallon since the scheme came into operation in December, 1933. In 1935-36 the unweighted annual average price under the Aberdeen scheme rose by ¼d. per gallon, and under the North of Scotland scheme by nearly ½d. per gallon, to 14¾d. and 15d. per gallon respectively.

Corresponding prices under pre-scheme conditions since 1928-29 are shown in Tables 41 and 42 on pages 324 and 325, which set out the liquid milk buying prices fixed under the agreements of the Permanent Joint Milk Committee in England and under the respective contracts of the Scottish Milk Agency and the Aberdeen Milk Agency. From these it will be seen that, throughout this pre-scheme period, there was a general downward trend which is in contrast to the upward tendency that has prevailed since the schemes came into operation. It must be borne in mind that in

* Economic Series No. 38.

pre-scheme days large quantities of milk bought for less than the liquid milk prices fixed under the various agreements were re-sold as liquid, so that the increase in wholesale liquid milk buying prices that has taken place since the schemes came into force is greater than is indicated by the comparison between the scheme and pre-scheme prices quoted in the Tables.

From Table 41 it appears that the upward movement in prices began, in England at any rate, in 1932-33, before the advent of the schemes. But because the Class II (*b*) contract was rapidly superseding the others, the increase was more apparent than real; and in so far as a gain to producers was recorded, it represented no more than a partial recovery of ground lost in the abnormal circumstances of the previous year. In any case there can be no doubt that, in face of the fall in the price-level of other agricultural products, and in view of the supplies of milk potentially available for liquid consumption, the wholesale price of liquid milk could not have been maintained around its recent level but for the existence of the schemes.

(ii) Special Factors affecting Wholesale Prices.

While the wholesale buying prices for liquid milk fixed by the Boards are generally applicable, there are certain exceptions. In the first place, each of the Boards has exercised its power to exempt certain classes of producers from some or all of the provisions of the schemes, and as a result certain producers are free to sell at prices other than those fixed. Similarly, the Boards may determine differential prices according to the grade of milk sold and may fix premiums in respect of special services rendered by producers.

Exemptions.—In general the exemption of certain classes of producers and certain classes of sales from the operation of the schemes has had little effect on wholesale buying prices for milk for liquid consumption, because most of the exemptions relate only to very small producers. There is, however, one exception. The exemption of sales of Certified and Grade " A " (T.T.) milk from price control under the English scheme may be a disturbing influence in the market for ungraded milk. Since producers of these grades of milk are not required to share the burden of disposing of milk that is surplus to the needs of the liquid milk market, they can, in the last resort, sell at the price fixed for ordinary milk and still secure for themselves a few pence per gallon more than the ordinary producer.

Quality premiums.—The main differences in respect of quality that are to be found in the minimum buying prices fixed under the schemes are those due to the higher prices prescribed by each of the three Scottish Boards for Certified and Grade " A " (T.T.) milk. Sales of these grades are exempt from the English scheme, and the only price provision relating to graded milk under this scheme is that introduced in the 1935-36 contract which required the buyer

to pay a premium of not less than 1d. per gallon on Grade " A " milk if he resold that milk at more than the minimum retail price prescribed for ordinary milk. As between the three Scottish schemes, all of which include sales of Certified and Grade " A " (T.T.) milk within their scope, there is considerable divergence in the relative values placed on these grades of milk by the different Boards. Under the main Scottish scheme, for example, the wholesale prices of Certified and Grade " A " (T.T.) milk have been consistently higher than the standard price by 10d. and 3d. per gallon respectively since April, 1934. The corresponding differences under the Aberdeen scheme in 1935-36 averaged 7¼d. and 3¼d. per gallon, and under the North of Scotland scheme 4d. and 2d. per gallon. There are, in each case, some further minor refinements according to the class of purchaser and according to whether the milk is sold loose or in bottles.

We have not sufficient evidence on which to make a close comparison between the price position of graded milks under the schemes and previously, but it seems probable that, over the whole country, there has been no appreciable change due to the operation of the schemes.

Special service premiums.—Apart from the limited application of special prices for graded milk, the chief differences in buyers' prices are due to premiums paid for services, the details of which vary from scheme to scheme. Some of these premiums survive from practices established in pre-scheme days; others are innovations. Some are obligatory; others are optional and are left for individual negotiation between producer and buyer. The most important are the premiums for level delivery.

The level delivery premiums provided for under the English contracts have undergone several modifications. In the first contract period there were two rates of premium, one of ½d. and the other of 1d. per gallon, according to whether the daily deliveries varied by not more than 10 per cent., or not more than 5 per cent., respectively, above or below a declared quantity. The 1935-36 contract made provision for the payment of three rates of premium based on the quantity delivered, one of ½d. per gallon allowing for a 10 per cent. variation each way, one of 1d. per gallon on an absolutely level daily delivery, and a third of 1½d. per gallon for the day to day delivery of the buyer's exact requirements. Under the main Scottish scheme the corresponding arrangements for 1935-36 provided for two premiums, one of 1d. per gallon, with an allowance of 5 per cent. variation each way, and the other of 2d. per gallon for the delivery of the buyer's exact daily requirements. Under the Aberdeen scheme and the North of Scotland scheme, both of which encourage level production through the operation of the " basic quantity " system, no specific provision has been made for the payment of additional premiums, the settlement of any special terms of this kind being left to the individual producers and buyers concerned.

In the main Scottish area a premium of 2d. per gallon is payable on producer-wholesaler sales. The special price fixed in this case differs somewhat from the other price premiums in that it depends upon the average daily purchases by the buyer from all sources. Every buyer whose total daily purchases are less than a prescribed quantity is required to pay the producer-wholesaler's price though the volume of his purchases may not in any way affect the costs of his suppliers or the services they give. The premium is, therefore, not strictly a payment for service, except in so far as the supply of milk in relatively small quantities can be so regarded.

The number of contracts under the English scheme carrying special premiums of one kind and another declined during the second year of the scheme, though the total number of contracts increased. The result is that, whereas in 1933-34 about one-fourth of the total contracts carried premiums, the corresponding proportion for 1934-35 was only about one-sixth. Under the main Scottish scheme, on the other hand, the proportion of contracts carrying special premiums had increased from about one-thirteenth of the total contracts in December, 1934, to about one-eleventh in December, 1935.

(iii) Seasonal and Local Variations in Wholesale Prices.

Seasonal variations.—Under the English scheme monthly prices have, in each year, differentiated broadly between a group of higher-priced winter months and a group of lower-priced summer months, the difference between the highest and lowest monthly price in a year having been as much as 5d. and not less than 4d. per gallon. In the second year the wholesale price in England and Wales was raised to 1s. 4d. per gallon in April and September, an increase in each of these two months, compared with the previous year, of 3d. a gallon in the South Eastern region and 4d. a gallon in the other regions. This had the effect of increasing the number of higher-priced months from six to eight, a position which was maintained in the 1935-36 contract. Comparison with the prices fixed under the agreement of the Permanent Joint Milk Committee in pre-scheme years shows that, in the two years immediately preceding the introduction of the scheme, the higher-priced period extended over only three months and five months respectively, and that only twice since 1922, the first year of collective bargaining, was April scheduled as a higher-priced month.

Monthly prices under the three Scottish schemes have shown smaller seasonal variations. In the first year of the main Scottish scheme the price was 1s. 2d. per gallon in every month, but in the second year the policy of a flat monthly price was discontinued. The Board raised the price to 1s. 3d. for November and December, 1934. Subsequently, by Order* of the Secretary of State for

* S.R. & O. 1934, No. 1438.

Scotland, the prices were fixed at 1s. 3d. for January and February; at 1s. 2d. for March, August and September; and at 1s. 1d. for the four months April to July, 1935. Under the 1935-36 contract, prices varied between 1s. 3d. for the months November to February, and 1s. for May and June. The effect has been that the pre-scheme differences between winter and summer prices which were general throughout the main Scottish area were eliminated in the first year of the scheme, but they have since been re-established to some extent.

The monthly prices prescribed under each of the two smaller Scottish schemes in the first year varied by only 1d. per gallon, the lowest price of 1s. 2d. being charged for three summer months and three winter months in the Aberdeen area, and for four summer months in the North of Scotland. For 1935-36 the price of 1s. 2d. was prescribed for only three summer months in the Aberdeen area. The price in that area for the remaining nine months and, in the North of Scotland for each month of the year, was 1s. 3d. per gallon.

Local variations.—In pre-scheme days wholesale buying prices for milk for liquid consumption varied widely between one locality and another. The prices paid for supplies to different consuming centres depended on such factors as the distance which supplies had to be transported, the competition of other towns for supplies, and the bargaining strength of producers and buyers. In general, prices tended to be lowest in towns and villages near to areas of heavy production and distant from large cities. Since the introduction of the schemes there have been very few variations within the area of any scheme. The only significant exception is in the prices fixed for the first year of the English scheme, when the " Appointed Persons " fixed a slightly higher price for milk sold in or consigned into the South Eastern region than for other regions, the difference over the year being $\frac{7}{12}$d. per gallon.

The schemes have thus been instrumental in securing substantially uniform wholesale liquid milk prices within their respective areas. The effect has been to raise wholesale liquid milk prices in those towns and villages where, under more competitive conditions, they were relatively low to the level of those in the large cities.

(iv) The General Level of Retail Prices.

As we have already mentioned, each of the four Boards has determined not only the prices at which milk may be sold by registered producers, but also the terms on which such milk may be re-sold. The contracts under the schemes have in all cases contained a " re-sale " clause binding the buyer to observe and, where necessary, to require any subsequent buyer to observe prescribed minimum re-sale prices, including retail prices. The licences issued to producer-retailers bind them also to the prescribed retail prices.

The contract covering the first six months of the English scheme was exceptional in that the relevant clause prohibited the retail sale of milk at a price below " the prevailing retail price of the district." Neither prices nor districts were specified, and consequently prices in England during this period were settled locally by majority decisions of retailers and producer-retailers. In each subsequent English contract, and in every contract under the other schemes, either minimum retail prices or minimum margins between the Board's wholesale price and the retail price have been prescribed specifically.

The retail price position under the schemes has thus differed radically from that obtaining in pre-scheme days when retail prices were determined by open competition, subject to the influence of voluntary organisations of producers and of distributors. But in assessing how far the schemes have contributed to the rise in retail milk prices within the last two years, there are two other important points to be borne in mind. The first is that the prices of foodstuffs generally have tended to rise during this period. The second is that the retail prices or margins prescribed by the Boards are minima only, which have not infrequently been exceeded. The actual increases in the retail prices charged are, therefore, not entirely due to the minimum retail prices prescribed by the Boards; but it is sometimes claimed that distributors who were formerly able to obtain supplies at cut prices now have to pay prices so much higher that they are obliged to exceed the prescribed minimum retail prices in order to secure the same margin as before. Though the schemes have not been solely responsible, there is no doubt that they have been mainly responsible, directly and indirectly, for raising retail prices in most parts of the country and maintaining them in others. On the other hand it is impossible to say with any assurance that, if there had been no schemes and producers' prices had fallen under unrestricted competition, retail prices would have been reduced correspondingly.

Minimum retail prices.—The detailed statement of the prices fixed under each scheme for each contract period given in Table 45 on page 328 shows the movement of *minimum* retail prices in recent years. It will be seen that the trend, in general, is similar to that of the wholesale contract prices which have been examined earlier. The difference between a flat minimum retail price in Scotland of 2s. per gallon and a price in England varying between 1s. 8d. and 2s. 4d. per gallon according to season and locality is particularly noticeable. The figures show that, during 1934 and 1935, the minimum retail price remained constant under each of the three Scottish schemes* and increased by varying amounts in most localities in England.

* The main Scottish Board, however, prescribed a reduced minimum retail price of 1s. 8d. for May and June, 1936.

Retail prices of Certified and Grade "A" (T.T.) milk are free from control in England, but minimum prices for these grades have been fixed under all the Scottish schemes. The appropriate prices per gallon under the 1935-36 contracts of the three Scottish schemes are higher than the corresponding retail prices of ungraded milk by the following amounts :—

Scheme.	*Certified.*	*Grade "A" (T.T.).*
	d.	d.
Scotland (main area)	8	4
Aberdeen and District	4	4
North of Scotland	4	2

Actual retail prices.—The general trend of actual retail milk prices in recent years is shown by the index numbers published by the Ministry of Labour, which are based on information collected regularly each month from retailers in 500 towns in the United Kingdom.* The following statement of annual averages of these monthly index numbers also gives, for comparison, the index numbers of all foods (excluding milk) and of the cost of living for each milk year (October-September) since 1929-30 :—

TABLE 21.—Annual Averages of Index Numbers of Retail Prices.
(July 1914=100.)

Milk year (Oct.-Sept.).	Retail prices of milk.	Retail prices of all foods (excluding milk).	Cost of living.
1929–30	176·8	146·4	160·4
1930–31	173·7	130·7	149·9
1931–32	167·3	124·0	144·4
1932–33	165·7	116·4	139·8
1933–34	175·2	117·6	140·8
1934–35	180·9	119·1	142·0

It will be seen that the average retail price of milk in the United Kingdom fell each year between 1929-30 and 1932-33, but rose in each of the next two years and in 1934-35 was higher than in 1929-30. The fall in the price of other foods and in the cost of living between 1929-30 and 1932-33 was much more rapid, and the rise in both since then has been but slight. While, therefore, the average retail price of milk was 2 per cent. higher in 1934-35 than in 1929-30, there was a fall of 18 per cent. in the price of other foods and of 11 per cent. in the cost of living over the same period. The prices of foodstuffs generally, and thus the cost of living, are of course affected by a number of circumstances, including in the case of many of them (but not of liquid milk) the values of imports.

* The inclusion of Northern Ireland does not make any significant difference.

(v) Modifications of the Prescribed Retail Prices.

Prices in excess of the prescribed minima.—We have had no direct evidence on which to estimate how far the prescribed minimum prices are, in practice, adopted as standard prices and how far they are exceeded, but on this subject a Report of the Consumers' Committee for England, dated 14th February, 1936, which we were asked by the Minister to consider, is instructive. The Report states that the Committee had been furnished by the Milk Marketing Board with returns of retail prices charged in the principal towns of England and Wales and gives the following Table showing the percentages of the towns in which the average retail price actually charged has exceeded, equalled or fallen below the average minimum appropriate price. It will be seen that the later figures cover a larger number of towns than the earlier.

TABLE 22.—Sample Variations of Actual Retail Prices from Prescribed Minimum Prices in England and Wales.

	Summer, 1934 (April–Sept.).	Winter, 1934–35 (Oct., 1934–Mar., 1935).	Summer, 1935 (April–Sept.).
	Per cent.	Per cent.	Per cent.
Percentage of towns in which the average retail price was—			
(*a*) higher than the average minimum appropriate retail price ...	83	33	48
(*b*) the same as the average minimum appropriate retail price ...	12	56	49
(*c*) lower than the average minimum appropriate retail price ...	5	11	3
	100	100	100
Total number of towns included ...	382	913	970

These figures give emphasis to the point which we made earlier that not all of the actual increases in retail prices which have taken place since the schemes came into operation have been due to the re-sale conditions laid down by the Boards.

Retail prices below the prescribed minima.—Under each of the schemes it is possible, in certain circumstances, for milk to be sold by retail at prices below those which apply in general. These exceptions arise mainly through the exemption of specified groups of producers; through the fixation of lower prices for certain classes of re-sales; and through the power of the Boards to sanction lower prices in certain circumstances.

The exemption of certain classes of producers has not had any widespread effect on retail prices. Since exemptions apply only to small producers, the effect has been confined chiefly to some of the more outlying parts of the Scottish areas, particularly of the

two smaller areas in the north, where the majority of the producers are widely scattered and their small supplies are consumed locally.

Secondly, the retail prices fixed under all the schemes, except during the first year of the English scheme, have been subject to some reduction where milk is purchased in large quantities. The amounts of reduction have been varied from time to time and are represented chiefly by what are known as semi-retail prices, applicable more particularly to large-scale consumers such as hotels and restaurants. The semi-retail prices are scaled differently under the different schemes. They do not affect the household consumer or other consumers purchasing less than one gallon at a time in England, or two gallons in Scotland.

In a sense, the semi-retail prices may be regarded as differential prices graded according to the services involved in distributing large and small individual consignments; and to some extent that is true also of milk supplied to schools, hospitals and other institutions. The only other price differential clearly related to service is that which has been provided for since October, 1935, under the English scheme, whereby milk retailed at the farmhouse door may be sold at 1d. per quart less than the minimum appropriate retail price for the district. The re-sale conditions do not make provision for the sale of milk over the counter at a lower price as is the practice in Northern Ireland.

Thirdly, provision is made under all the schemes whereby other distributors may pay dividends comparable with those paid by the consumers' co-operative societies. Among private distributors the practice of giving dividends is very limited, though we understand that it is growing among producer-retailers under the Aberdeen scheme. One difference between the English scheme and the main Scottish scheme in this respect is that whereas retailers in England are free to choose individually whether they will give dividends (provided the rate of dividend does not exceed that of the local consumers' co-operative society) retailers in the area of the main Scottish scheme must satisfy the Board that it is the general desire of distributors in a county or city that such permission should be granted. We understand that no requests for permission to pay dividends have been made by distributors in any part of the main Scottish area.

Finally, reductions in the retail price in England have resulted from a clause, found only in the English contract, which provides that the Board may approve a lower price for any district on a resolution of a majority of the retailers, including producer-retailers, distributing the greater part of the milk in that district. This provision was first introduced in the contract period beginning April, 1934, and since that time the numbers of reductions granted have been as follows :—

April to September, 1934	6
October, 1934, to September, 1935	354
October, 1935, to May, 1936	88

These reductions applied only to the contract period in which they were granted; most of them related either to villages or to small provincial towns in the Mid Western, the North Western and the Northern regions and were the result of applications from producer-retailers. The population of the areas in which reductions were made in the course of the year ended September, 1935, was about $2\frac{1}{4}$ million, or nearly 6 per cent. of the total population of England and Wales; and over three-quarters of the population so affected was in one region—the North Western.

(vi) Seasonal and Local Variations in Prescribed Retail Prices.

Seasonal variations.—In England and Wales it was the practice in pre-scheme days to observe two levels of retail prices, one in the summer and the other in the winter. This general practice has been continued under the English scheme. There has, however, been some considerable change in the amount of the seasonal variation and also in the months comprised in the summer and winter periods since the scheme came into operation. As will be seen from Table 45 on page 328, the general effect has been to reduce the number of months in which summer prices are charged and to increase the amount of the seasonal difference, though in degrees that vary according to the type and population of the district. In districts in the South Eastern region with a population of more than 25,000, winter prices for the last two years were extended to the three months March, April and September and were thus operative in respect of eight months instead of five months, as in the previous two years.

In Scotland the principle originally adopted under each scheme was that of a uniform retail price throughout the year. In the main Scottish area the effect of adopting a flat price of 2s. per gallon was that consumers in Edinburgh and district benefited by a lowering of the pre-scheme price from 2s. 4d. to 2s. in a number of winter months, while consumers in Glasgow and the surrounding industrial districts, as well as in the west of Scotland generally, where the price used to be 2s. in a number of winter months and 1s. 8d. for the rest of the year, suffered an increase of 4d. per gallon in their summer price. In view of the much larger population in the west, consumers as a body in the area of the main Scottish scheme have thus paid more for their milk than formerly. Though the minimum price was reduced to 1s. 8d. per gallon for two summer months of 1936, the retail price of 2s. per gallon for the remaining 10 months is, in fact, equivalent to the highest winter price formerly ruling in any part of the south of Scotland except Edinburgh and possibly a few towns on the east coast. The retail prices fixed under the Aberdeen and North of Scotland schemes have not varied seasonally.

Local variations.—Under the English scheme the present system of prescribing retail prices creates different price levels for different

areas classified according to the type of local government and size of population. The only local variations are those which arise in consequence of this arrangement and of the modifications of retail prices discussed in the preceding section. Under the main Scottish scheme the principle of a flat price has been followed, not only throughout the year (until the summer of 1936) but also irrespective of locality. That was originally true also of the two smaller schemes, but the Aberdeen Board has since introduced a variation by fixing a minimum price of 1s. 8d. per gallon in 30 specified rural districts and 1s. 4d. per gallon in nine rural districts; and the North of Scotland Board has more recently reduced prices in certain areas in which it has undertaken retail distribution.

There is no satisfactory basis on which the retail prices prescribed for the different areas under the English scheme can be compared with those prevailing under pre-scheme conditions. It is only in rural districts and areas of less than 10,000 inhabitants, however, that the minimum price has been as low as 1s. 8d. per gallon, and this has applied for only two months in each of the last two years. Moreover, in all areas having a population greater than 25,000 the retail price, at 2s. per gallon in the six summer months (only four summer months in the South Eastern region) and 2s. 4d. per gallon for the remainder of the year, was even higher than the level ruling in London during the three years 1931-32 to 1933-34. The London level is, we understand, fairly general throughout the whole of the South Eastern region, irrespective of the size of the population groups.

(vii) Prices to Hospitals and Schools.

In examining the effects of the schemes on the prices of liquid milk it is necessary to mention two special classes, namely, the milk supplied to hospitals and other similar institutions and that supplied under the Milk-in-Schools scheme.

Complaint has been made that hospitals and other institutions have been involved in heavy additional expenditure by reason of the schemes. In fact, each of the four Boards makes special provision for the supply of milk to hospitals and some other institutions. In some cases the appropriate price is the same as the wholesale price payable by distributors; and generally it does not exceed that price by more than 1½d. per gallon. This sum of 1½d. per gallon represents the premium payable under the English scheme in return for the right of the hospital to fix, day by day, the quantity required. Under all the schemes hospitals are dealt with at least as favourably as any other big non-trading buyer, and in most instances they are charged less.

In spite of this position it is nevertheless true that the price paid by hospitals for their milk has increased considerably since the schemes came into operation. In pre-scheme days hospitals, like other large purchasers, were able to buy milk cheaply. The

abolition of price-cutting and the fact that the price of all liquid milk contains an element of contribution towards the subsidisation of manufacturing milk have together been responsible for the increase.

As regards the supply of milk to school children, the effect of the Government's Milk-in-Schools plan, which could hardly have been administered in its present form in the absence of organised marketing, has been to reduce the retail price of these supplies by about one-half. The present charge of ½d. for one-third pint is equivalent to 1s. per gallon, of which 6d. per gallon represents the distributors' margin. The remaining 6d. accrues to the Boards, and the difference between this sum and the price at which milk for liquid consumption is normally sold by the Boards is borne in part by producers through the Boards and in part by the State.

CHAPTER 9.—EFFECTS ON ASSEMBLY AND DISTRIBUTION.

When long-distance consignment of milk by rail first began, the producer delivered direct to his buyer's town station or country factory. But with the development of large-scale distribution in the milk industry shortly before the War, it became common for supplies to be collected at country depots. The result is that a producer selling wholesale may deliver his milk in any of the following ways: to a local retailer; to a town retailer or a town wholesale depot; to a country factory; or to a country collecting depot from which some of the milk may go into manufacture and some may be re-consigned in bulk to the liquid milk market.

(i) Direct and Depot Milk.

A distinction of great importance to the producer has arisen in England between milk consigned direct and that consigned to depots. Before the scheme was introduced depot buyers were allowed to make deductions from the price payable for their milk in respect of "transit risk"* and of transport from the depot to the consuming centre. This system has continued under the English scheme, with the difference that only depots approved by the Board are allowed to make these deductions. Milk is said to be sold on depot contract if it is consigned by the producer to a collecting depot approved by the Board. All other milk, whether for liquid consumption or for manufacture, is sold on direct contract.

* The Board and the buyers appear to hold different views as to the services covered by the "transit risk" charge. The Board's contention is that it should represent nothing more than payment for the risks transferred to buyers when they take delivery at a point distant from the final destination. Buyers claim that it should include also an allowance to depots for handling and processing. The matter is discussed on pages 30 to 35 of the Report of the Committee of Investigation for England and Wales on the complaints of buyers against the contract originally prescribed by the English Board for 1935–36.

In England the practice of using collecting depots has steadily extended among wholesale and large retail distributors since the War. In the first year of the English scheme nearly 41 per cent. of the total contract supplies and in the second year some 42 per cent. was bought through depots.* About one-half of depot milk is manufactured and one-half sold for liquid consumption. The transit risk charge is, therefore, payable on approximately one-fifth of the milk sold under contract.

The chief advantages of collecting depots are that initial processing for the liquid market can be done nearer to the point of production and that considerable savings in freight charges can be effected on bulk consignments. The benefits arising from processing at an early stage are, no doubt, shared by the producer as well as the distributor and the consumer; but the distributor is able to retain in his hands the whole of the savings on transport. In fact the buyer in England has frequently been able to make a profit on the bulk transport of milk for liquid consumption; and in so far as the method of operation of the scheme has permitted this to continue, it has encouraged the use of depots. In the view of the English Board, however, these depots can only be justified for long-distance milk traffic.

The number of approved depots increased during the first months of the scheme. The Board considered that some of these depots were not justified by considerations of economical assembly and accordingly decided not to renew approximately 50 depot licences in April, 1934. The owners complained and, following an inquiry by the Committee of Investigation, the Board renewed a number of the cancelled licences.

Under the main Scottish scheme there is no distinction between depot and direct contracts: a buyer taking delivery at a country depot must bear the cost of further transport himself. This was the subject of a complaint which was referred to the Committee of Investigation for Scotland. The Committee found that the Board's action in making the depot buyer bear the cost of further transport was contrary to the interests of the buyer, but they did not find that such action was not in the public interest; at the same time the Committee stated that they would deplore any policy that might result in the closing of existing depots and the consequent necessity of carrying milk greater distances before it could be adequately cooled. The Board's policy has, no doubt, discouraged the use of collecting depots in its area; but they are less necessary than in England because of the shorter distances from the producing areas to the consuming centres.

(ii) Assembly of Urban Liquid Milk Supplies.

From the point of view of the industry as a whole, the possibility of effecting economies in transport by reducing the average length

* See Table 31 on page 309.

of haul is of great importance. In some instances the main Scottish Board has been able, in re-arranging contracts, to prevent unduly long hauls, but the problem does not appear to have been systematically attacked by any of the Boards.

The action which has been taken by the main Scottish Board has led to a clash of interests between the distributors conducting their own haulage and the haulage contractors represented on the Haulage Sub-Committee of the Permanent Joint Committee. In the agreement constituting this Committee it was provided that, as far as possible, the persons already hauling the milk of a particular producer should be entitled to continue to do so. Where the Board has re-allocated the contracts of a distributor who transported his own supplies, it has sometimes been impossible to give him the contract to haul the milk from his new supplier because the haulage contractor already engaged had a prior claim. At the same time the Road and Rail Traffic Act, 1933, makes it difficult for such distributors to use their vehicles except for hauling their own supplies. The distributors have thus felt themselves in danger of losing their haulage business to the outside contractors, but we have no reason to believe that actual cases of hardship have been common.

In England and Wales the Board has sometimes been able to effect a more advantageous distribution of contracts, but it has not been possible for it to undertake any systematic re-arrangement of supplies with a view to shortening the average haul. The main reasons are, no doubt, first that the regional pool price depends on the respective quantities sold for liquid consumption and for manufacture, so that any changes in destination made by the Board in the interests of economy in transport might affect the relative levels of regional pool prices; and secondly, that an individual producer's transport charges, and thus his net returns, might be adversely affected if his milk were diverted to a new destination. Even though the change reduced the actual transport costs, it might involve the producer in a higher charge under the complicated arrangements governing the calculation of the charges on depot milk (see Appendix III). One unfortunate result of the operation of the scheme has actually been to increase the length of haul in some instances, because the buyer is often able to earn a larger profit on a longer haul.

(iii) Organisation of Distribution.

General effects on distribution.—The most valuable general advantage which distributors have gained from the schemes is that they are now protected from undercutting by the minimum retail prices prescribed in the contracts. Previously their trade had been liable to suffer from price-cutting, particularly by producer-retailers during the flush season. This danger has now been almost entirely removed.

The larger distributors have gained another important advantage in that they no longer suffer loss on that milk, surplus to their liquid requirements, which has to be manufactured. Before the schemes came into being, distributors were usually able to obtain a proportion of their requirements at manufacturing prices, but they had to bear any loss in disposing of milk bought at liquid prices which could not be sold in the liquid market. Under the two main schemes, however, a large distributor only pays the liquid price for milk actually sold as such; for milk not so sold he obtains the rebate appropriate to the use made of the milk. This concession has not been extended to small buyers, largely, we understand, because of the difficulty and expense of checking their accounts. Those small buyers who were formerly able to obtain a proportion of their milk at manufacturing prices must now pay liquid milk prices for all their requirements.

In this way the schemes have undoubtedly favoured the larger distributors. In consequence, the Amalgamated Master Dairymen, Limited (representing the smaller London distributors) complained that this restriction of the manufacturing rebate put them at a competitive disadvantage and sought to have the restrictions removed in regard to all milk manufactured into cream. The Committee of Investigation for England and Wales, to whom the complaint was referred, were, however, of the opinion that the action of the Board was justified, and that it was in the interests of milk producers and milk manufacturers as a whole and might therefore be said to be in the public interest.

It may be noted that the main Scottish Board provides a special service to distributors whose average daily purchases exceed 20 gallons. If such distributors find, at any time, that their requirements exceed or fall short of the quantity supplied under contract, the Board undertakes, subject to certain conditions, to relieve them of the excess or to make good the shortage.

Another effect of the English scheme which is, at least potentially, of great importance, is the development of purchase from wholesalers brought about by the decrease in the number of distributors buying on the Board's contract. In the first contract period the number of contract buyers was nearly 20,000, but this had been reduced to some 16,500 by the third contract period. The Board has secured this result by refusing supplies to buyers who have not made prompt payment. It has also demanded satisfactory references or an adequate deposit before allowing credit to a new buyer. The buyers who have been eliminated are mostly small purchasers with only one or two contracts. It does not, of course, follow that those who no longer buy through the Board have given up their businesses. It is probable that most of them are still in business, but now obtain their milk through wholesalers. Another cause contributing to the reduction in the number of buyers has, no doubt, been the refusal of the Board to allow manufacturing rebates to the smaller distributors. In order to balance their daily

supplies and sales more accurately, many of these have given up direct contracts with producers and now purchase their supplies from wholesalers.

The development of large-scale wholesaling in towns makes for greater economy in bottling and processing, while the plant used for these purposes in the large wholesale depots is probably more efficient than that owned by some of the smaller retailers. It is obvious, also, that the concentration of these processes at a few points must greatly facilitate inspection.

Distribution by producers.—Some 40 per cent. of all the producers registered under the schemes undertake the retail distribution of at least a part of their milk. As is shown by Table 29 on page 306, the number of licensed producer-retailers has increased in England and Wales, due mainly to the withdrawal of the exemption of producers retailing less than one gallon a day. Under the Aberdeen scheme, there has also been some increase, probably to be ascribed to a tightening up in administration. There has been but little change in numbers in the other areas.

The recorded volume of retail sales by producers in England and Wales increased in the second year from 110 to 113 million gallons. This was, no doubt, due mainly to the inclusion in the latter period of some 20,000 additional small producer-retailers. In the main Scottish area the figures for producer-retailers are combined with those for some other smaller classes of producers and are not clearly separable. It seems probable, however, that there has been a small decrease in their sales during the second year. There is no reason to suppose that the relative position of producer-distributors has been affected by either of the schemes in the north and north-east of Scotland, but we are not in possession of figures for a sufficiently long period to enable a statistical comparison to be made.

(iv) Distributive Margins.

The difference between the retail price of liquid milk and the price paid to the Board, known as the " distributive margin ", is in fact made up of two margins, the wholesaler's and the retailer's, although it is often the same individual or firm who performs both functions.

Nominal margins: England and Wales.—It is not possible to make a comparison between nominal margins before and since the schemes came into operation because no particular margin was generally recognised before the introduction of the schemes.

In the first contract period (October, 1933 to March, 1934) the English Board did not fix specific retail prices or margins, but merely stipulated that milk should not be sold below the prevailing retail price. Consequently no particular margin was generally recognised during this period.

For the second contract period (April to September, 1934) the Board fixed specific minimum margins for different types of area. For London and other large towns the minimum was 10d., which compared with a nominal margin of $11\frac{5}{6}$d. for the same period in the previous year.

For the third contract period, which covered the full year (October, 1934 to September, 1935) the Board reached a compromise with the buyers rather than allow the prices to be settled by the three "Appointed Persons". The result of the agreement was to increase both the liquid milk buying price and the distributors' minimum margins.* Compared with the previous period, the London distributors' minimum margin rose by $1\frac{1}{2}$d. per gallon; the rise in minimum margins in other districts varied from $\frac{1}{4}$d. (rural districts) to 2d. (towns outside the South Eastern region with a population between 25,000 and 50,000).

At the beginning of the fourth contract period the Board was, for the first time, in a position to prescribe prices without having to submit to arbitration in the event of disagreement with the distributors. The Board made use of this power to prescribe contract terms which included a reduction in the distributors' minimum margin by an average of $\frac{5}{12}$d. over the year. The terms of the contract were the subject of complaints to the Minister by the Central Milk Distributive Committee (representing wholesale buyers, both distributors and manufacturers) and by the Parliamentary Committee of the Co-operative Congress, and these complaints were referred to the Committee of Investigation for England and Wales. The decision of the Minister following the recommendation of the Committee had the effect of reducing the nominal distributive margin by only $\frac{2}{12}$d. per gallon over the year.

Minimum margins for wholesale transactions by distributors have been prescribed by the Board for the second and the succeeding contract periods. In the second contract period the margin was fixed at $\frac{1}{2}$d. per gallon for daily quantities of 1,000 gallons or more and at 1d. for smaller quantities. In the following contract a more detailed classification was laid down, the margin varying from $\frac{1}{2}$d. for daily quantities of 1,500 gallons or over to $1\frac{1}{2}$d. for quantities of less than 500 gallons. No alteration was made in this respect for the 1935-36 contract period.

Nominal margins: Scotland.—The distributors' minimum margin under the main Scottish scheme was fixed at 10d. per gallon for each month of the period December, 1933, to September, 1934. In the following contract year wholesale buying prices were changed for certain months. The effect of this was to vary the margin in these months, but the average over the year remained at 10d. per gallon. The contracts prescribed by the Board for the 1935-36 period reduced the average margin to $9\frac{1}{3}$d. by lowering the retail price from 2s. to 1s. 8d. in May and June. The distributors made

* See Tables 40 and 46 on pages 323 and 331.

complaint against this reduction, and the matter was referred to the Committee of Investigation for Scotland, who recommended a compromise. The terms prescribed by the Board were, however, confirmed by the Secretary of State.

The Aberdeen Board reduced the average of monthly minimum margins from 10d., at which it had stood for the year to 30th November, 1934, to 9¼d. from the 1st January, 1935 (for the intervening month of December the minimum margin had been 10d.). The distributors appealed to the Secretary of State, who directed the Committee of Investigation to report on the complaint. The Committee found that the Board's action was not in the interests of the complainants, but they did not find that the Board's action was not in the public interest. In a number of specified rural areas lower minimum retail prices are allowed.

Under the North of Scotland scheme the retailers' margin varied during the first complete year (October, 1934—September, 1935) between 9d. and 10d. per gallon according to the season, the average margin over the year being 9·46d. For the year 1935-36 the Board has reduced the margin to 9d. in all months.

Actual margins.—It is important to notice that the wholesale and retail prices prescribed in the contracts of the various Boards are all minima and that margins are only prevented from rising above the minima where competition is effective. If the distributors in any district agree among themselves to charge a price higher than the minimum appropriate retail price, they are thereby able to widen their margins. Returns collected by the English Board from nearly 1,000 towns in England and Wales show that in a large number of towns distributors have been able to do this. During the six winter months October, 1934, to March, 1935, the average retail price was above the appropriate minima in nearly one-third of these towns; and during the summer months April to September, 1935, the average retail price was above the minima in nearly half of these towns.* It does not follow, however, that prices exceeded the minima in every month; during July and August, 1935, the appropriate minima were the actual prices in almost all towns.

On the other hand, retail prices below the prescribed minima may be allowed by the English Board in any area in which the majority of distributors request a reduction. It appears that in most of the areas in which advantage has been taken of this provision the distributors are in the main producer-retailers, who presumably found that their trade suffered from the increase in price which had occurred under the scheme.

We understand that under all the Scottish schemes the prescribed minimum margins have been observed as the actual margins by distributors, except that the minimum fixed under the main Scottish scheme for May and June, 1936, was generally exceeded.

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* See Table 22 on page 86.

General effects on margins.—The main effect of the schemes on margins has been to standardise them irrespective of the service rendered. It is true that the English Board's contract for the year 1935-36 made a concession of 1d. a quart in the case of farmhouse-door sales, but no general system of differentiation according to services has yet been adopted. In England, although there has been some levelling up of retail prices as between areas, they have not been made completely uniform; for example, the price in areas administered by rural district councils (or by urban authorities with a population of less than 10,000) was $3\frac{1}{3}$d. per gallon lower than in the largest towns in the South Eastern region during 1935-36.

It is impossible to show definitely how the changes brought about by the schemes have affected distributive margins. The absence of precise knowledge as to actual margins before the schemes came into force and the variations in England and Wales between actual and minimum margins prevent any close comparison. The opinion that we have formed, however, is that in general the position of distributors has been improved during the period of the operation of the schemes. Some of them have suffered through being compelled to pay liquid milk prices for the whole of their supplies and to bear the cost of disposing of their surpluses: others have been relieved of the cost of balancing as a result of the arrangements made for rebates on manufacturing milk. All have gained through the greater stability given to the industry. In the towns the tendency has been towards some intensification of the competition in services in place of the previous competition in prices. The greatest gain has probably been obtained by those distributors who have given the least elaborate service. It is evident that the present disposition of all the Boards is to reduce the margin between wholesale prices and minimum retail prices, but it is too early to see what effect this will have upon actual margins.

CHAPTER 10.—EFFECTS ON MANUFACTURE AND ON MANUFACTURING MILK PRICES.

Two changes introduced by the milk marketing schemes have been of great importance in their influence upon the manufacture of milk products. They are:—

(i) the system of pooling the receipts from all sales of milk and equalising, to a large extent, the returns to producers;

(ii) the extension of the principle of selling manufacturing milk at prices which are related to the selling prices of the manufactured products.

The first of these, coupled with the low values of milk products generally, has meant that it has paid many producers better to

sell their milk in liquid form than to manufacture it on the farm. The second has enabled manufacturers to absorb the additional supplies thus thrown upon the market.

(i) Farm Manufacture.

Before the schemes came into existence large quantities of milk were manufactured on the farm into cheese, butter and cream. The pre-scheme importance of farm manufacture in relation to the sale of liquid milk may be judged from the following figures* for 1924-25 and 1930-31.

TABLE 23.—COMPARISON OF QUANTITIES OF MILK SOLD OFF FARMS AS LIQUID MILK AND AS MANUFACTURED PRODUCTS IN ENGLAND AND WALES AND IN SCOTLAND IN THE YEARS 1924–25 AND 1930–31.

(Million Gallons).

	1924–25.			1930–31.		
	England and Wales.	Scotland.	Total Great Britain.	England and Wales.	Scotland.	Total Great Britain.
Liquid milk ...	818	114·1	932·1	949	119·4	1,068·4
Butter	120	8·8	128·8	140	8·3	148·3
Cheese	54	15·1	69·1	60	14·6	74·6
Cream	8	2·1	10·1	16·5	3·8	20·3
Total	1,000	140·1	1,140·1	1,165·5	146·1	1,311·6

The system of pooling returns from the sale of milk in the liquid and the manufacturing markets has had the effect of making it more profitable for most producers to sell their milk off the farm than to turn it into cheese or butter. As we have noted in Chapter 7, there appears to have been no striking increase in the total production of milk throughout the country since the schemes came into operation. During this period, too, there has been no large change in the quantity of milk sold for liquid consumption. On the whole it seems probable, therefore, that while the quantity of milk available for other uses including manufacture has increased, the increase cannot have been very great. The *sales* of milk for manufacture have, however, grown enormously, and the additional supplies must represent in the main a reduction in the quantity of milk retained on the farm for manufacturing and other purposes. It would be difficult to form any reliable estimate as to how much of the additional milk now sold was formerly used in farm manufacture and how much

* Taken from "The Agricultural Output of England and Wales, 1930–1931" (Cmd. 4605), "The Agricultural Output for Scotland, 1925" (Cmd. 3191), and "The Agricultural Output for Scotland, 1930" (Cmd. 4496).

was used in stock rearing, but the probability seems to be that the major part of the increase is due to the transfer of manufacture from the farms to the creameries and factories.

The main Scottish Board was the first to take steps to counter these effects. In February, 1934, arrangements were made to induce farm cheese makers in the main Scottish area to retain their milk on the farm. In effect the Board agreed to make up to them the difference between the net value of the milk if sold off the farm (i.e. the pool price less transport charges) and its value if turned into cheese. In order to enable the Board to secure, in respect of milk made into cheese on the farm, the " repayable advances " under the Milk Act, 1934* (which came into force a few months later) the arrangements were confined to producers keeping eight or more cows, which number has since been reduced to six.

The English Board introduced a similar plan in April, 1934. They agreed to pay those farm cheese makers with at least eight cows (now six) who undertook to keep all their milk on the farm sums which amounted to about 2·4d. and 1·9d. per gallon, respectively, for milk made into hard cheese and into soft cheese. These sums included the " repayable advance " under the Milk Act. The rate of assistance provided by the Board was increased during the second year and again during the third year. The rate for 1935-36, which varied between summer and winter and for hard and soft cheese, appears to have been sufficient to make the returns to farm cheese makers approximately equal to those which they would have received by the sale of their milk.

No similar arrangement has been made either in England or in Scotland to assist the manufacture of butter on the farm. It is understood that one reason is that the administrative difficulties have, so far, been considered insuperable. Cheese production is mainly carried on by comparatively large-scale producers; the cheese is made, and sold, in relatively large lots; and it is not difficult therefore to check quantities. Butter, on the other hand, is often made by small producers and is sold at frequent intervals and in small lots. Consequently the administration of the same type of scheme in relation to farm butter would be a much harder task.

The following figures show the quantities of milk estimated to have been used in making cheese sold off farms in England and Wales and in Scotland in 1930-31 as compared with the quantities in respect of which the Boards made payments to farm cheese makers in the milk year 1934-35 :—

	1930–31. Million gallons.	1934–35. Million gallons.
England and Wales	60·0	14·0
Scotland	14·6	9·3
Total	74·6	23·3

* See Appendix I., page 295.

These figures should not be read as meaning that farm cheese making has been reduced by two-thirds as a consequence of the schemes. The two sets of figures are not entirely comparable, since those for 1930-31 are estimates, whereas the later figures are actual; and the later figures exclude some small cheese makers. Moreover, the serious decline in cheese prices before the schemes came into being must have reduced farm manufacture very considerably. At the same time social changes—such as the growing unwillingness of farmers' wives and daughters to work long hours for small returns—were contributing materially to the decrease.

It seems probable, nevertheless, that the simplicity of selling milk and the assurance of returns under the schemes have played a considerable part in reducing farm cheese manufacture. In any case there can be little doubt that, without the special steps taken in the two larger areas to assist the farm cheese industry, the manufacture of cheese on the farm would have become confined to those farms whose products could command a special price by reason of exceptional quality.

It is impossible to quote figures to indicate the present extent of farm butter making, though there is reason to believe that it has been declining rapidly. Unless the principles adopted for farm cheese are extended to butter, the higher returns from the sale of milk in liquid form seem bound to reduce butter making on farms in most districts to very small proportions.

(ii) Factory Manufacture.

The general position.—In England, before the schemes came into operation, the production of milk specifically for sale to factories had not been developed on a large scale, though there were a number of creameries established in Wales and in the west of England. Much of the factory manufacture was undertaken by firms engaged mainly in the liquid milk business but using a part of their supplies in the production of butter, cheese, cream and condensed milk. In the south-west of Scotland a considerable number of creameries and factories were in existence, many of them owned by farmers' co-operative societies.

The encouragement given by the schemes to the sale of liquid milk by producers who formerly engaged in manufacture on the farm greatly increased the volume of milk available for purchase by creameries and factories. At the same time, the system of selling manufacturing milk at " realisation " prices, which is discussed in the following section of this Chapter, enabled the factories to buy the additional milk. Table 35 on page 315 shows the increase in the sales of milk for manufacture from the first to the second year. Tables 37 to 39 on pages 318 to 322 show the quantities used in the manufacture of each of the principal products.

The figures furnished by the Boards for the milk year which ended in September, 1935, showing the quantities of milk made

into cheese and butter in factories are not strictly comparable with those of the Census of Production of 1930-31. They suggest, however, that during the four-year period the output of factory cheese nearly doubled and that factory butter increased fivefold. The production of condensed milk and milk powder has more than doubled since 1933.

Size and location of factories.—With the object of minimising the costs of inspection and administration, the English and main Scottish Boards have both made it a condition of obtaining milk for manufacture at prices below the liquid milk price that the buyer shall take not less than a daily average of 500 gallons; and the English Board has made it a further condition that not less than an average of 300 gallons a day shall be manufactured. All milk is purchased in the first instance at the current liquid milk price, and rebates are given at the appropriate rates to those licensed buyers who are able to show that the whole or a part of the milk has been used in manufacture. Under both schemes buyers of less than 500 gallons per day and, in England, buyers of more than 500 gallons who manufacture less than 300 gallons a day, are themselves obliged to bear, as a business risk, any loss occasioned by the manufacture of their day-to-day surpluses. It has been represented* that these buyers are unfairly treated in this respect but that they would be reasonably satisfied if provision were made to charge them for their surpluses at the prices applicable to milk for manufacture into cream.

In granting or withholding manufacturing licences, the Boards have, no doubt, been influenced largely by the administrative problem of exercising a check over the quantities of milk on which purchasers claim the manufacturing rebates. They have recognised, however, that other considerations, such as the rational siting of factories, are also important both from the point of view of producers and from that of the industry as a whole. But as yet, and in view of the limited control which, as producers' Boards, they can exercise in this field, they have not been able to accomplish much in the way of changing the location of factories. In another connection we have been specially impressed by the need for more effective control over the factors which determine the areas from which liquid and manufacturing supplies are drawn. Several instances have been quoted to us to show that, in England, it has become a practice with some "depot" buyers to use their more distant depots for supplying the liquid milk market—presumably in order to make a profit on the transport of such milk†—and their less distant depots for manufacture. There would clearly be a general saving if the milk required for liquid consumption could be drawn from the nearest sources and manufacture concentrated in the more distant areas of production.

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* See page 93. † See page 171.

Manufacture by the Boards.—Each of the Boards has itself manufactured some part of the milk surplus to liquid requirements. At an early stage the main Scottish Board took over a number of creameries in the south-west of Scotland, and we understand that it now owns 19 factories and is by far the largest manufacturer of milk products in Scotland. From the beginning of the scheme until September, 1935, the Board has been responsible for the manufacture of rather more than 50 per cent. of the surplus milk sold under the scheme. Towards the end of the contract year 1935-36 the English Board was actually operating six factories, while six more were in active preparation; and it is understood that further expansion is contemplated. The percentage of manufacturing milk actually dealt with by the Board is, however, still small. In the Aberdeen and North of Scotland areas the proportion of the total output used in manufacture is much less than under either of the two larger schemes, but the Aberdeen Board has itself manufactured some three-quarters, and the North of Scotland Board about one-quarter, of the retained surpluses of those areas.

One advantage from the producers' point of view in Board-owned factories is that they enable the Boards to obtain first-hand information as to manufacturing costs which provides a valuable guide in the negotiation of prices for manufacturing milk. On the other hand, manufacturing interests have complained that it is unfair that the Boards, while exercising the right to inspect and examine the accounts of privately-owned factories should, at the same time, enter into commercial competition with them. They have also urged that the competition between the Boards and other manufacturers is unequal, in that the Boards can sell their own products at whatever prices they will fetch.

Apart, however, from these specific matters of complaint, it is the case that all manufacturers are dependent on the Boards—their competitors—for their supplies of raw materials, a situation that may lead to difficulties unless it is equitably and reasonably handled.

(iii) The Method of Fixing Prices of Manufacturing Milk.

The pre-scheme position.—In England, previous to the introduction of the scheme, provision had been made in the contracts approved by the Permanent Joint Milk Committee for the payment of liquid milk prices for a proportion of the supply and for the payment of lower prices for the remainder, which was deemed to be surplus to liquid requirements and, therefore, to be used in manufacture. The details of the contracts were changed from year to year, and the position was complicated by the existence of the alternative forms of contract which are described in the Grigg Report. In the last year (1932-33), however, most of the milk was sold under the contract known as Class II (*b*), which provided that a certain percentage, varying from month to month but representing an unweighted average of 75 per cent. throughout the year, should

be paid for at the full price and the remainder at a manufacturing price. The manufacturing price, which was determined monthly, was 2d. less per gallon than the average price per lb. of Canadian and New Zealand cheese, with a minimum of 5d. per gallon. There was no provision under these contracts for the separate sale of manufacturing milk, apart from liquid milk, at special prices.

In Scotland the problem of manufacturing milk was one that concerned mainly the south-west. Previous to 1927, the price of milk in the Glasgow area had been fixed at conferences between the National Farmers' Union of Scotland and representatives of the distributive and manufacturing organisations. Their arrangements provided for payment for surpluses at a rate related to the price of imported cheese. Towards the end of 1927 the Scottish Milk Agency was set up to sell the milk produced by its members, to make provision for the disposal of supplies surplus to liquid milk requirements and to equalise returns to the producers. The membership of the Agency included a number of creameries, and milk for manufacture was sold to these creameries at prices fixed by the Committee of Management of the Agency. The creameries were then free to use the milk in any form of manufacture, and they retained any profits and bore any losses; but in certain circumstances the Agency was prepared to consider applications for allowances to meet losses.

Both in England and in Scotland there were some creameries buying milk from individual producers specifically for manufacture, at rates that were agreed between the parties. In general, the practice of selling manufacturing milk separately from liquid milk was extending more rapidly in Scotland than in England. In both countries the value to be attached to manufacturing milk was arrived at by negotiation, but was apparently more or less related to the price of imported cheese.

The position under the schemes.—Under the two main schemes, and to some extent under the schemes operating in the Aberdeen area and the North of Scotland, the broad principle on which manufacturing prices are now fixed is that the price charged to the buyer is determined by the commercial value of the finished product. Since this means that the price is variable, but is in all cases substantially below the liquid milk price, it is necessary to ensure that the milk is, in fact, used for the appropriate product.

The precise method of applying the principle of "realisation" values is, however, not the same under all the schemes, nor for all products. In England the prices of milk for manufacture into certain products, including cream, dried milk and condensed milk for home consumption, have been fixed in the contract itself, and normally for the period of the contract. Prices of milk for manufacture into cheese, butter and condensed milk for export, on the other hand, were, until the 1935-36 contract period, all determined monthly by means of a formula based on the price

of imported cheese. For that period the price of milk for manufacture into butter was fixed (following the Report of the Committee of Investigation) by reference to the price of imported butter.

In the main area of Scotland the prices payable in the 1935-36 contract period for milk for manufacture into fresh cream and margarine and the formulae for determining the prices of milk for manufacture into butter and cheese were set out in the contract. The prices for other categories of manufacturing milk were fixed, usually for some months in advance, after consideration by a subcommittee of the Permanent Joint Committee. In the previous contract periods the price for each category of manufacturing milk was determined by one or other of the above methods, though not consistently by the same method in all the contract periods. Until February, 1935, the price of milk for cheese manufacture was related to the price of certain classes of imported cheese, though with some minor variations; and until April of that year the price of milk for butter manufacture was apparently assessed, in general, by reference to the current price of butter, but a higher rate was charged to buyers with a market for skim milk and butter milk. Since these dates the prices of milk for cheese manufacture and for butter manufacture have been fixed by reference to the wholesale prices, respectively, of cheese and butter manufactured in certain of the Board's own factories and creameries; but milk for butter manufacture continued to be charged at a higher price to small manufacturers than to large, apparently on the ground that most small manufacturers are able to realise better prices for the by-products.

A relatively large proportion of the milk sold for manufacture by the Aberdeen Board has been sold at a price based on the assumption that the milk would be used in making cream, though some of the milk sold at this price may have been used for making butter. More recently milk has been sold at a price appropriate to butter manufacture, and a small quantity has been sold for cheese manufacture at the statutory cheese milk price rounded up to the nearest farthing. The small quantity of milk disposed of by the North of Scotland Board for manufacturing purposes has been sold for cream and butter manufacture at prices negotiated with the buyers.

General effects.—The extension of the realisation value system of selling milk for manufacturing purposes has gone far to remove the major difficulties that faced manufacturers in pre-scheme days. In the first place, it is now the common practice to make definite provision for the purchase of manufacturing milk as a separate commodity. Secondly, the price paid for milk is related to the price received for the particular manufactured product. The latter point is important because the prices of cream, butter, cheese and other products do not bear either the same relationship to the price of milk or a constant relationship to one another.

The system of realisation values is thus designed to enable manufacturers of all kinds of milk products to continue in business, while

securing to producers the maximum returns from each class of manufacturing milk. The system has not, of course, assisted manufacturers who do not purchase or manufacture sufficiently large quantities to obtain the manufacturing rebates.

The evidence given to us by manufacturers shows that they fully approve in principle the realisation value system. Their main complaints concern the precise methods of arriving at the prices; the prices themselves; the competition of the Boards; and—another matter altogether—the degree of protection from imports afforded to the home manufacturer.

(iv) The Levels of Manufacturing Milk Prices.

In England the prices paid for manufacturing milk under the contract of the Permanent Joint Milk Committee averaged 5d., 4¾d., and 5d. per gallon during the last three milk years preceding the introduction of the scheme. The price paid during the first year of the scheme averaged 4·96d. and during the second year 4·81d. There has thus been little difference in the average returns per gallon. The figures are, however, not entirely comparable, because the manufacturing price paid before the schemes came into being was usually a flat price paid on a fixed percentage of milk, which was not necessarily the quantity used in manufacture, whereas the figures for the last two years are averages of the prices paid by approved manufacturers for the milk actually used in manufacture.

The average realisation values obtained under the main Scottish scheme during the years ended November, 1934, and November, 1935, were 4·99d. and 4·73d. per gallon, respectively. Owing to the lack of precise data, we have not found it possible to compare the prices of manufacturing milk under the schemes in Scotland with those prevailing before the schemes came into operation.

The following Table* compares the annual average prices received under the schemes for milk used in the manufacture of the principal products during the last two milk years.

TABLE 24.—Annual Average Prices of Milk Manufactured into the Principal Products.

Scheme.	Cheese.		Butter.		Condensed whole milk.		Fresh cream.	
	1933–34.	1934–35.	1933–34.	1934–35.	1933–34.	1934–35.	1933–34.	1934–35.
	(pence per gallon)							
England and Wales ...	3·60	3·50	3·61	4·07	6·00	6·00	7·96	7·50
Scotland (main area) ...	3·19	2·73	5·22	4·01	5·19	5·16	6·59	6·83
Aberdeen and District	—	2·91	—	3·58	—	—	—	8·84
North of Scotland ...	—	3·11	—	3·63	—	—	—	9·07

Note.—The Aberdeen and North of Scotland schemes did not come into operation until the latter half of 1934.

* See also Tables 43 and 44 on pages 326 and 327.

The figures in this Table illustrate the differences in the prices obtained for milk for manufacture into various products which result from the realisation value system. They indicate, too, the differences between the realisation values of milk under the English and main Scottish schemes. The prices at which the small quantities of manufacturing milk are sold in the Aberdeen and North of Scotland areas cannot appreciably affect prices over the rest of the country.

There has been no regular seasonal trend in manufacturing milk prices either before or since the schemes came into operation, though during the spring and early summer a larger proportion of the increased output has to be sold for butter and cheese-making, thus reducing the average of the returns per gallon to producers at that season. Long-term price trends for milk used in the manufacture of most milk products obviously depend very largely upon the course of prices of competing imported products.

(v) Marketing of Milk Products.

Great changes have been brought about in the manufacturing industry by the enormous increase in factory manufacture which has taken place since the schemes came into being, and by the entry of the Boards into the manufacturing field. These developments have taken place so rapidly that the industry has not yet had time fully to adjust itself to the new conditions, and there are a number of problems which still await solution.

Difficulties have arisen under the schemes in consequence of the differences in realisation prices charged by the several Boards for milk for manufacture into the same product. Where the price of milk for manufacture into a particular product varies from one scheme to another, an opportunity is given to manufacturers in one area to undersell those in another. A special case of this general difficulty arose out of the arrangements that were agreed upon by the English and main Scottish Boards in order to limit the competition of Scottish milk supplies in the English market. The English Board undertook to pay compensation to the main Scottish Board on the quantity by which it reduced its sales of liquid milk into England. The milk retained by the Scottish Board under this agreement had, of course, to be used for manufacture; so that competition between schemes in the primary product was eliminated only to create increased competition in secondary products.

The most important attempt that has so far been made to solve this problem consists in the series of agreements reached between the two main Boards and manufacturers in Great Britain, Northern Ireland and the Irish Free State regarding the price at which cream should be sold in England. The effect of these agreements has been to raise the wholesale price of cream, but there have, nevertheless, been many complaints that they are not strictly observed by all the parties concerned. In any case, agreements in respect of cream alone provide no solution for similar difficulties

in respect of butter, cheese and condensed milk. It seems clear that any permanent system of realisation prices should take account of the possibilities of trade in all these products between the different scheme areas, though the actual prices might need to be adjusted by reference to such factors as differences in the cost of transport. It is understood that the Marketing Boards Co-ordinating Committee has had this problem under review at some of its meetings.

Negotiations between the interests concerned have been in progress for some time past with the object of promoting a secondary products scheme under the Agricultural Marketing Acts, and a draft scheme has now been formally submitted. So far as Great Britain is concerned, such a scheme should do much to overcome difficulties relating to prices for milk products.

(vi) Efficiency of Manufacture.

Quality.—The finest qualities of home-produced cheese are made on the farm, and a considerable proportion of the total farm production fetches higher prices than factory cheese. Some high quality butter also is made on the farm, but the general standard is low. Farm butter making is a less specialised industry than farm cheese making.

The manufacture of butter on a large scale makes for uniformity of quality at a higher level than the average secured on the farm. It also provides the basis of a better sales organisation. For these reasons the tendency to substitute creamery for farm manufacture of butter should represent, on the whole, a movement towards improved efficiency.

It is more doubtful, however, how far, in the interests of efficiency of manufacture, factory cheese should be allowed to replace farm cheese. Factory processes might be expected to lead to greater uniformity and to certain economies, and if cheese making as a whole is to increase considerably, it seems desirable that most of the increase should take place in the factory. The factory product would supply the popular need for a uniform and cheap article. But it will probably still be necessary to look to the best farm cheese makers for the product of the highest quality, and the Boards have done well in enabling the farm cheese industry to continue.

By-products.—Where manufacture is undertaken on the farm the by-products are available for immediate use. Frequently the utilisation value of skim milk and butter milk for stock feeding was an appreciable factor in the returns from farm manufacture. The extension of factory manufacture has accordingly given new importance to the problem of the disposal of by-products.

The manufacture of condensed skim milk has expanded rapidly in this country during the last few years. Moreover, some steps have been taken to prevent the wastage of by-products which are

not utilised in further manufacture. Thus, in some places both in England and in Scotland, arrangements have been made, as in Northern Ireland, to return skim milk to the farm; and the main Scottish Board have themselves undertaken bacon pig production. According to a recent statement of the Vice-Chairman of the main Scottish Board, no skim milk is now wasted by any of the Board's factories: and after making full allowance for the costs of manufacture, the return from skim milk used in their dried milk and casein plants amounts to £55,000 per annum.

Over the country as a whole, however, large quantities of skim milk are not only wasted, but are a source of expense and inconvenience to the factories which have to dispose of them in accordance with the requirements of the sanitary authorities. It is generally recognised that stock feeding is the best method of disposal for skim milk, but the full employment of this method would require an organisation that has yet to be created in most areas. The principal difficulties seem to be the risk of spreading disease due to the dispersion of bulked skim milk throughout the whole of an area serving a factory, and the fact that the churns in which the skim milk is distributed must be used again to send fresh milk to the factory. It seems necessary, therefore, that satisfactory arrangements should be made for the sterilising of churns on the farm and for the pasteurising of skim milk before its despatch from factories.

Widely varying estimates are put upon the feeding value of skim milk, but under most circumstances it is probably not less than 1d. per gallon. If satisfactory arrangements could be made by which this by-product became available for stock feeding, the saving of 1d. per gallon on milk sold for manufacture at about 4d. per gallon would be considerable. It is, therefore, highly important that attention should be given to the problem of using most economically the large quantities of by-products now concentrated at factories.

CHAPTER 11.—EFFECTS ON THE CONSUMPTION OF LIQUID MILK.

(i) The General Level of Consumption.

The statistics furnished by the English and the main Scottish Boards showing the quantity of milk sold for liquid consumption in their areas include a certain quantity of milk which is sold at liquid milk prices to distributors not entitled to the manufacturing rebates, but which is subsequently used in manufacture; and, on the other hand, they exclude milk which is sold outside the schemes. While, therefore, these statistics do not give a strictly accurate measure of the quantity of milk used for liquid consumption, they afford the best information available to show any changes that may be taking place in the consumption of liquid milk since the schemes came into operation. There are, in any case, no

corresponding figures for pre-scheme years with which a comparison could be made. As both the Aberdeen and North of Scotland schemes came into force in the latter half of 1934, it has not been possible to compare quantities for even the first two years of their operation. In both areas the proportion of milk sold by producers exempt from registration is much greater than in the main Scottish area or in England and Wales.

The statistics seem to show that, over the short period that can be considered, the effects of the schemes on the total consumption of liquid milk have not been marked. Figures for the second year of the scheme show an increase of consumption in England and Wales of about 5 per cent. compared with the first year. But in some respects the Board's returns are more comprehensive for the later period. For example, in October, 1934, the Board withdrew the exemption of producer-retailers selling less than one gallon per day. This affected some 20,000 producers; and if these sold an average of two quarts daily, their inclusion would account for over $3\frac{1}{2}$ million gallons. It should also be noted that the Milk-in-Schools scheme was in operation during the latter of these two periods. If the additional quantity of milk sold in schools as a result of the specially low price is excluded, and if the suggested allowance for the inclusion of small producer-retailers is taken into account, the sales for liquid consumption in 1934-35 show an increase over 1933-34 of about 2 per cent.

Under the main Scottish scheme, the ten months December, 1934, to September, 1935, show an increase in liquid sales of 4 per cent. over the corresponding months of the previous year.* In that case also the increase includes milk sold under the Milk-in-Schools scheme: but the situation is not complicated by the inclusion of any additional group of producers. If the school milk is excluded, the figures for the later period show an increase in sales of liquid milk of about three-quarters of one per cent.

By regulating competition among producers and among distributors the schemes have strengthened the position of both in relation to consumers, and one result has been, as we have seen, that the consumer has had to pay higher prices for his milk. Since the rise in prices has not, apparently, reduced demand in general, it might seem that the demand for milk is relatively insensitive to small price-changes. This view gains support from previous experience that the usual price changes from summer to winter and *vice versa* had little effect on the volume of sales.

It is probably safe to assume, however, that the long-term effects of price changes are much greater than these figures suggest. It must be remembered that, during the period under review, the purchasing power of the public has been increasing, and as the demand for milk is known to be sensitive to changes of income,

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*** The comparison is only over ten months because the Scottish scheme did not come fully into operation until December, 1933.**

this would be expected to show itself in increased sales. The expansion of liquid milk sales which might have been expected appears to have been delayed, if not prevented, by the higher prices that have ruled.

(ii) Consumption in Urban Areas.

Retail prices appear to have risen generally throughout England and Wales, though, as we have pointed out earlier, the schemes may not be entirely responsible. The extent of the increase has varied considerably from place to place. A sample taken from the figures of predominant retail prices in a number of English towns for 1932-33 (before the scheme came into force) and for 1934-35, shows price increases ranging from $5\frac{1}{6}$d. down to $\frac{2}{3}$d. per gallon in towns with a population of more than 100,000 and increases ranging from $4\frac{2}{3}$d. down to $\frac{2}{3}$d. in smaller towns. The Consumers' Committee estimated that the higher minimum retail prices prescribed in the 1934-35 contract would cost consumers in London alone an additional £500,000 in that year.

In the area of the main Scottish scheme, as we pointed out in an earlier Chapter, the effect of prescribing a level retail price throughout the year has been to lower the price in certain parts of the east of Scotland, more particularly in Edinburgh, during the winter and to raise the price in Glasgow and the west during the summer. The Glasgow area is the most thickly populated part of Scotland.

Any increase in the retail price of milk is bound to be a matter of moment to consumers, and particularly to those whose budget allowed for only a small quantity of fresh milk even before the rise in price. The price increases have necessarily had their greatest effect on the poorest consumers, that is, on those whose consumption was already far below the general standard for the country. It is an unfortunate fact that, other things being equal, parents with a number of children have the least to spend on foodstuffs, and it is, of course, among such families that the need of milk is greatest.

(iii) Effects on Rural Consumers.

Before the schemes were introduced the retail price of milk was generally lower in rural areas than in towns, partly by reason of their nearness to the source of supply and partly by reason of the less elaborate distributive service.

In England and Wales the effect of standardising wholesale prices has been mitigated by fixing lower minimum prices in rural areas; for example, the annual average minimum price in areas administered by rural district councils (or by urban authorities with a population of less than 10,000) was in 1934-35 and again in 1935-36, $3\frac{1}{3}$d. per gallon lower than in London; and the latter contract also allowed sales at the farmhouse door at 1d. a quart below the minimum retail price. During the first year retail sales of not more than one gallon a day were exempt from the provisions of the

English scheme governing producer-retailers; but this exemption was withdrawn at the beginning of the second year. Producers selling only small quantities to a few neighbours have been exempt under all the Scottish schemes since their introduction. The main Scottish Board has not provided for any further local variations in the minimum retail prices. The Aberdeen Board has granted special permission to sell milk by retail in certain rural districts at specially reduced prices. The North of Scotland Board has taken the view that no special steps are needed, owing to the existence of a very large number of small producers exempted from the scheme, over whom no price control is exercised.

We have been informed that, notwithstanding these measures, the prices charged to rural consumers both in England and Wales and in Scotland have, in fact, risen very considerably in most parts and that there has been a reduction in consumption in consequence. The main reason is no doubt that, whereas in pre-scheme days producers often found it suited them better to sell milk locally at low prices than to send it away for manufacture, they are no longer allowed to sell milk either by wholesale or by retail at less than the prescribed minimum prices.

Though many individual instances of increased prices have been quoted to us, it is obviously difficult to secure evidence that is general in its application, or to furnish an appreciation of the resulting situation over the whole area of the schemes. We are of opinion, however, that the incidence of the schemes on consumption has been most marked in rural areas, since the re-sale clauses of the contracts, together with the fixed selling prices for producer-retailers, have brought about a greater increase in milk prices to rural than to urban consumers.

It has also been pointed out to us, with particular reference to England and Wales, that the schemes have had another unfortunate effect in many small villages. Before the schemes came into operation small quantities of milk were usually available, even at the dairies of those local farmers who sold the great bulk of their production on contract. Under the schemes such sales are prohibited unless the producer is a licensed retailer. Although a producer-retailer licence can be obtained free of charge, it carries with it an obligation to make returns and contributions to the Board. If the local retail trade is very small, farmers do not consider it worth while to take out a licence. This has sometimes given rise to the paradoxical situation that, even in predominantly milk-producing neighbourhoods, local inhabitants have found it impossible to obtain fresh milk. Although the same difficulty was known to occur even under pre-scheme conditions, it has been intensified under the schemes. In such circumstances there is a strong incentive for the villagers to take to condensed milk, which can be bought conveniently in the village shop.

(iv) Views of the Consumers' Committees.

In accordance with the provisions of the Acts, Consumers' Committees are charged with the general duty of considering and reporting to "the Minister"* on the effects of agricultural marketing schemes on consumers, as well as with the duty of investigating specific complaints. We do not propose to attempt to summarise the Reports that have been made by these Committees from time to time, but in view of the special attention that the Committees for England and Wales and for Scotland have given to the effects of the milk marketing schemes on consumers and on consumption, we think it desirable to call attention to some of their general conclusions.

The English Committee have consistently cast doubt upon the desirability of fixing retail prices or retail margins as a corollary of fixing wholesale prices. In a Report, dated 18th February, 1935, which the Minister of Agriculture and Fisheries referred to our consideration, the Committee found that the retail price of milk had generally risen during the period of the scheme and expressed the opinion that the prescribed minimum retail margins were not low enough to make allowance for the wide variations in the character and cost of services. In support of their contention that the fixed minima were excessive, the Committee cited the number of applications made to the Board for reductions in the minimum retail prices.

The Committee stated further that they were impressed by the danger that higher prices, by encouraging production and reducing consumption, might actually depress the price received by producers, owing to the greater proportion of milk going to manufacture at low prices. This danger, they suggested, might be mitigated by increasing the proportion of milk going into liquid consumption. The success of the Milk-in-Schools scheme had shown how the machinery of the Board could be used to increase consumption. Both producers and consumers would gain from a suitable arrangement by which milk now going into manufacture could be sold at a specially low price for liquid consumption, provided that these sales were a net addition to the present consumption of fresh milk. The Committee also considered that there should be adequate representation of consumers' interests before prices were fixed.

The Consumers' Committee for Scotland has protested on behalf of rural consumers against the uniformity of retail prices. In the opinion of the Committee, having regard to the proximity of rural consumers to the source of supply and in view of the simplicity and much smaller extent of the services, the charge of the same

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* In the Agricultural Marketing Acts "the Minister" means, in relation to a scheme, committee or commission applicable to:—

(*a*) Great Britain, both the Minister of Agriculture and Fisheries and the Secretary of State for Scotland acting in conjunction;

(*b*) England only, the Minister of Agriculture and Fisheries;

(*c*) Scotland only, the Secretary of State for Scotland.

retail price to both urban and rural consumers is not justified. The Committee favoured the classification of distributors according to the type of service rendered, with appropriate variation of the distributive margin.

This Committee has expressed to us the opinion that a reduction in the price of milk would lead to increased consumption and that, in view of the benefits that such increased consumption would have on the health of the community, every endeavour to this end should be made. It is the view of the Committee that pure milk should be made available to the whole community at a price which even the poor can pay. While aware of the steps which have already been taken to make cheap milk available to certain classes of the community, the Committee consider it still more essential that there should be a reduction in price to the ordinary consumer.

The general attitude of both the English and the Scottish Consumers' Committees towards the milk marketing schemes displays anxiety at the tendency towards higher retail prices. This attitude does not imply opposition to the organisation of agricultural marketing; on the contrary, the Committees evidently consider that the schemes could be, and should be, operated for the ultimate benefit of consumers as well as of producers.

(v) Efforts to Stimulate Consumption.

The Boards have, either independently, in co-operation with distributors, or in conjunction with the Government, attempted in a number of ways to increase the consumption of liquid milk. The Boards' own efforts were greatly stimulated by the Milk Act, 1934,* which empowered " the Minister " to pay up to one-half of the cost of approved schemes for increasing the demand for milk. Under Section 11 of that Act, Exchequer grants are being made for the provision of cheap milk for school children, for an enquiry into the nutritive value of milk, and for general publicity. These grants are available for three years to a total of £1½ million.

Before the introduction of the marketing schemes, money for various forms of publicity had been raised from producers and distributors under the negotiated agreements, but the marketing schemes have made it possible greatly to extend the scope of the efforts to stimulate consumption in the last two years. The English Board has had the advantage of the co-operation of the National Milk Publicity Council, but in Scotland the Boards make all their own arrangements for propaganda and publicity. There is also, in England, an Advisory Committee on Milk Publicity, under the chairmanship of Lord Astor, which was appointed by the English Board to advise on the general question of milk publicity in connection with the Milk Act.

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* See Appendix I on page 295.

Milk in Schools.—Before the Milk Act was passed, a scheme for the distribution of milk to school children had already been in operation in England and Wales. This scheme, promoted by the National Milk Publicity Council, was started in 1927, and by 1933 nearly $8\frac{1}{2}$ million gallons were supplied during the year to some 900,000 children. The milk was distributed in one-third pint bottles at 1d. each. As a result of the Milk Act, it became possible for the Boards to provide milk for school children at the specially reduced rate of $\frac{1}{2}$d. per one-third pint bottle.

The present Milk-in-Schools schemes are operated on the same basis by all four Boards. The distributors agreed to accept a margin of 6d. per gallon; the Board receives 6d., and the Government pays to the Board part of the difference between this 6d. and the Board's standard selling price for liquid milk. In Scotland Grade "A" (T.T.) milk is, wherever possible, supplied to the children. Not only do the children benefit by the increased consumption, but in so far as the milk sold in schools represents a net increase in liquid consumption, the Board receives, with the Government grant, an average price higher than it would have obtained if the milk had been used in manufacture. On the other hand, it should not be overlooked that the quantity of school milk sold in pre-scheme days in England and Wales obtained virtually the full liquid price.

It is hoped that, as a result of the schemes, the younger generation will acquire the habit of drinking milk. In some quarters it has been suggested that the additional milk drunk in schools has resulted in a decrease in home consumption. No doubt there have been decreases in the consumption of some families, but there have also been increases by others, and we are not aware of any evidence to show that there has been a net decrease in home consumption as a result of the school milk schemes.

In October, 1934, the first month of the operation of the new Milk-in-Schools scheme in England, nearly 2 million gallons were consumed in schools. In October, 1935, the corresponding quantity was nearly 2·3 million gallons. The total quantity of milk taken during the first year was nearly 23 million gallons. During 1935, the number of children taking the milk under the English scheme was generally between $2\frac{1}{2}$ and $2\frac{3}{4}$ million, but the number of children fluctuates somewhat from month to month. Latterly, however, there has been some falling off in school milk consumption in a number of districts. Under the Scottish schemes, during the calendar year 1935, some 300,000 children took the milk, the amount consumed being about 220,000 gallons per month.

As a rule the milk is only available at the school on school days. There are administrative difficulties in distributing milk from centres to school-children during the holidays and attempts to overcome them have not, in most cases, met with much success. The same kind of difficulty would be encountered under any scheme for supplying milk from centres to children under school age. During

the past summer, however, the main Scottish Board has been experimenting with centres in Glasgow at which both school children and younger children were able to obtain milk for consumption on the premises at the price of ½d. per bottle of one-third of a pint.

The nutritional inquiry.—The English and Scottish Boards, acting on the advice of the Advisory Committee on Milk Publicity, have undertaken experiments designed to ascertain the effects on the health of children of the consumption of milk in varying quantities and to obtain evidence on the relative values of raw and pasteurised milk. Using for the principal investigation the facilities afforded by the Milk-in-Schools schemes, inquiries, tests and examinations have been undertaken by experienced workers in co-operation with school medical officers and teachers. The main tests, covering a period of a year, were carried out with some 8,000 school children in five selected areas, one of which is in Scotland. The Exchequer is contributing £5,000 towards the cost of these experiments.

General publicity.—The National Milk Publicity Council undertakes general publicity work in England and Wales in the form of films, exhibitions, lectures, pamphlets and posters. One of the most promising of the Council's activities is the launching of schemes for the supply of milk to workers in factories, mines and offices. As a rule the milk is bought from a local distributor on terms which permit its re-sale at 1d. per one-third pint, equivalent to 2s. per gallon. Normally there is found to be a cumulative increase in the volume of sales : it is interesting to note that in one area where a local distributor had opposed sales in mines on the ground that they would reduce home consumption, there was actually an increase in home consumption after the special supply to the mines had been started. The Council also organises " Milk Weeks " in towns, and it considers these concentrated local campaigns to be more effective than a wider diffusion of the available resources. These activities include poster and window displays, house-to-house distribution of leaflets, publicity in the local press and the establishment of milk bars.

Before the Milk Act came into force in August, 1934, the English Board had collected about £40,000 by means of a publicity levy during May of one-eighth of a penny per gallon from distributors, to which an equivalent sum was added from the Board's funds, representing the producers' contribution. The total of about £80,000, less ten per cent. reserved for research purposes, was entrusted to the administration of the National Milk Publicity Council. After the Milk Act came into force, the Board submitted proposals to the Government for a special publicity campaign during 1935 in England and Wales, estimated to cost £60,000. These proposals were approved, and the expenditure was met as to one-half from the money subscribed by the Board to the fund already referred to, and as to one-half by grant from the Exchequer.

A similar publicity scheme for 1936, which will qualify for a like contribution from the Exchequer, has been approved.

In 1935 the main Scottish Board inaugurated a publicity scheme, estimated to cost £17,000. No special levy was raised for the purpose. The Government contributed one-half and the Board's share of the expense fell on the general pool funds. A similar scheme has been continued in 1936 at an estimated cost of £26,000 for the year. The main Scottish Board is also making efforts to popularise the drinking of milk in offices and factories. Sales of this character within the scheme area amount to some 5,000 to 6,000 one-third pint bottles per day during the summer months. It is understood that these sales have yielded the Board a profit after paying all the expenses of canvassing and of other necessary arrangements.

In 1935 the Aberdeen Board also inaugurated a publicity scheme to cost £1,600, and a similar scheme, estimated to cost £2,000, is in operation during the year 1936.

Reduced prices in selected areas.—The Milk-in-Schools plan was the first considerable experiment in selling milk at differential prices to different classes of consumers. The English Board has recognised that, to enable the potential demand for milk on the part of certain other groups to become effective, a substantial reduction in the retail price to them may be necessary, and the Board has declared its readiness to participate in experiments to this end, with particular reference to children under school age and to expectant and nursing mothers. The Board proposed to carry out a scheme for special price reductions to the unemployed in Merthyr Tydfil, somewhat on the lines of an experiment conducted by the Potato Marketing Board at Bishop Auckland.* Unfortunately the plan had to be abandoned temporarily as the Board and the distributors were unable to agree upon terms. An experiment on similar lines was begun in the Rhondda Valley in July, 1936, and is to be continued until September, 1937. The Commissioner for the Special Areas, the Rhondda Urban District Council and the local distributors are co-operating with the Board in a scheme for the supply of milk to children and to nursing and expectant mothers at a price of 2d. per pint. The milk is delivered, and the minimum quantity to be supplied is one pint per day. The distributors receive a reduced margin of 8d. instead of the normal 10d. per gallon, and the Commissioner for the Special Areas contributes about 3½d. per gallon, so that the Board obtains about 11½d., i.e. approximately the average pool price, for each gallon of milk sold in this way.

The Scottish Board has also indicated its willingness to consider the organisation of a scheme on similar lines. The Aberdeen Board has recently begun to supply milk at 2d. per pint to persons in

* See "An Experiment in the Distribution of Potatoes at Bishop Auckland," published by the Potato Marketing Board, price 1s.

the City of Aberdeen who are in receipt of outdoor poor relief or unemployment insurance relief, and who can produce a certificate from the Public Assistance Department of the Town Council. The distribution is made from a special depot, as the Board and the local distributors were unable to agree on terms for the distribution of such milk through the ordinary retail channels. Experiments of these kinds should provide valuable information as to the elasticity of the demand for milk among necessitous classes and in depressed areas.

Quality improvements.—One result of the Accredited Milk scheme in England in improving production methods should be to strengthen public confidence in the milk supply, and thus indirectly to stimulate demand. Such a result would naturally take time to make itself felt. It is too early yet to form any estimate of the effect of the Accredited scheme on milk consumption.

CHAPTER 12.—SUMMARY OF THE EFFECTS OF THE SCHEMES.

In the preceding Chapters we have attempted to examine in some detail the influences that the schemes have had and are having on the various interests that are concerned with the sale and purchase of milk. In some cases these changes have already become well defined. In others, the time that has elapsed since the inception of the schemes is too short to judge definitely of effects, though tendencies have begun to show themselves more or less clearly. We propose in this Chapter to bring together our main conclusions as to these effects and tendencies in order that they may point, in turn, to the main problems that call for consideration in connection with the schemes.

Effects on producers and production.—Before the milk marketing schemes came into operation individual producers were competing against one another for markets, though the intensity of the competition was modified to some extent as a result of agreements between the voluntary organisations of producers and those of distributors and manufacturers. Each of the schemes has substituted a co-ordinated system of combined selling. For all practical purposes price competition between producers no longer exists; the prices at which producers may sell are fixed by their own Boards.

Over the industry as a whole these prices are sufficient to give somewhat higher returns to producers than they were receiving previously and, without much doubt, substantially higher prices than they would have received during the last few years had there been no statutory schemes. The immediate improvement in returns resulting from the schemes was, however, not uniform. It was more marked in Scotland than in England and Wales, and more marked in the outlying regions of England and Wales than in those close to the main consuming centres. In spite of the general

improvement many producers, and certain classes of producers particularly, maintain that the prices which they receive under the schemes are still unremunerative.

Again, individual producers have not all fared alike under any of the schemes. Some have gained appreciably, not only in comparison with what their position would probably have been without the schemes, but also in comparison with their pre-scheme position. Others have definitely lost as compared with their pre-scheme position, but it is impossible to know how they would have stood had there been no schemes.

The Boards have guaranteed a market for all the milk that producers choose to sell; and because low prices have ruled for milk products and store cattle, it has been more remunerative to producers to sell their milk in liquid form than to continue to manufacture or use it on the farm. In consequence there has been a very large increase in the volume of milk sold off the farm in England and Wales and in the main Scottish area, and a decrease in the farm manufacture of butter and cheese. The decline in farm cheese manufacture has been partially arrested by the action of the two Boards in giving financial assistance to farm cheese makers with the object of helping them to continue cheese-making. There is no similar arrangement for butter.

Because of the larger volume of milk seeking a market, increasing quantities of milk have necessarily been sold at low prices for manufacture. In consequence, although the wholesale price of liquid milk rose considerably in England and Wales, the pool prices paid to producers rose very little during the second year. In the main Scottish area both wholesale and pool prices remained steady. The failure of higher liquid milk prices to raise producers' returns correspondingly has been disappointing to the whole of the producing industry.

In particular, the growing gap between the price realised for liquid milk and the price payable to producers has caused discontent on the part of those producers who formerly were able to sell the whole, or the greater part, of their milk into the liquid market. More especially has it caused disquiet among producer-retailers, who, as a class, have direct access to the liquid milk market, but who, under the schemes, have had to pay a levy in respect of manufacturing milk. One object of the schemes, however, was to improve the position of producers who were formerly supplying the manufacturing market, as compensation for their agreement (in effect) not to undercut the liquid milk market. But these producers complain that their position has not yet been improved sufficiently.

Although there has been a large increase in the volume of milk sold, there appears to have been no comparable increase in the volume of production. The quantity of milk produced depends largely, of course, upon the number of cows, and it takes an appreciable time to increase the cow population. So far, the indications

do not suggest any abnormal increase in production, but rather less increase, on the average, than that which obtained during the previous four or five years.

It is not yet possible to discern any marked change in the quality of production, but a change of that kind would take time to show itself. The Boards are, however, making efforts to promote higher standards of quality and cleanliness.

Effects on consumers and consumption.—So far as consumers are concerned, the principal effect of the schemes has been to raise retail prices throughout most of the country. This has arisen in two ways: in the first place through the higher wholesale price which distributors have had to pay; and secondly, through the fixing of minimum retail prices. Some distributors claim to have been unable to conduct their businesses at the fixed minima, because their buying prices are so much higher than formerly.

In spite of the higher retail prices the volume of liquid milk consumed has increased slightly. The probability seems to be that, had the prices not risen, there would have been a more marked increase of consumption in consequence of the improvement in the purchasing power of the public; but that any tendency towards greater consumption has so far been largely neutralised by the higher prices.

Higher prices for liquid milk constitute a serious hardship for the poorest sections of the industrial community, because they make it impossible for them to purchase more than very small quantities. But it seems likely that, in general, rural consumers have suffered even more than urban consumers. Before the schemes came into operation milk could be purchased very cheaply in most country districts, especially in the summer. Under the schemes nearly all sellers are obliged to observe fixed minimum prices, though throughout Scotland there is an exemption for producers selling small quantities by retail. In England milk may now be sold at a lower price at the farmhouse door; but in some parts rural consumers have found it difficult, or even impossible, to obtain supplies because of the reluctance on the part of producers to take out a retailer's licence.

The schemes have adversely affected hospitals, institutions and other large buyers who were, in the disorganised state of the market, frequently in a position to make contracts with producers at specially low prices. They are, of course, now obliged to pay the appropriate prices fixed for supplies to large consumers, and this has added considerably to their costs.

On the other hand, the Boards have all taken part in propaganda campaigns for stimulating the consumption of milk. In particular, they have all co-operated with the Government in providing milk for schoolchildren at cheap rates.

Effects on the distributive trade.—The action of the Boards in fixing the minimum prices at which milk may be sold by retail has

introduced a new measure of stability into the distributive industry. It may be noted, however, that if the Boards had confined themselves to fixing the prices at which producers should sell, that would of itself have gone a long way to prevent unreasonable price-cutting by distributors. The minimum distributive margin is fixed without regard to the service given; and in many cases the actual margin obtained is higher than the minimum prescribed by the Boards.

There are insufficient data as to the margins obtained before the schemes came into operation to permit of a close comparison between pre-scheme margins and those obtained under the schemes. In England and Wales, however, the prescribed minimum margins were increased for the second year of the scheme; but since then provision has been made for some reduction in the nominal distributive margin. In the main area of Scotland the minimum retail prices fixed by the Board safeguarded distributive margins at their previous general level until this summer, but some reduction has now been made. In the Aberdeen and North of Scotland areas a reduction was made soon after the schemes came into operation.

Although representatives of distributors are consulted before wholesale and retail minimum prices are fixed, it is a matter of insistent complaint by the distributive trade that it has no effective hand in the final settlement of prices.

The system of charging "realisation" prices to large buyers in respect of milk used in manufacture has tended to assist the larger distributors. There has been a continuation of the pre-scheme tendency for milk to pass through depots instead of going direct to buyers' town premises. The main Scottish Board has been able to shorten hauls in some instances, but in England, in spite of the Board's efforts, there has been some tendency for hauls to lengthen.

The distributive trade has co-operated with the Government and the Boards in providing milk for school children and has accepted a substantially lower distributive margin in respect of this milk.

Effects on manufacture.—There has been an enormous increase in the volume of milk sold for manufacture into milk products, due mainly to the fact that farm manufacture has been less remunerative than the sale of milk off the farm. This increase has been assisted by the extension of the realisation value system of payment for manufacturing milk. While manufacturers approve this system of realisation values in principle, they feel that it is operated on too arbitrary a basis; and further, they complain that they have no effective part in fixing prices. It has not yet been possible to secure complete co-ordination between the schemes in the matter of realisation values.

The practice of the two larger Boards of allowing only large buyers to obtain rebates on manufacturing milk has helped to

concentrate manufacture in the hands of the larger firms. There has also been some tendency in England for firms with premises in different parts of the country to send liquid supplies long distances and to use supplies nearer the main consuming centres for manufacture, because the system of transport charges has made it more profitable to them to do so.

The result of the large transfer of butter making from farm to creamery has probably been, on the whole, to improve the quality of the output; but the similar transfer of cheese manufacture from farm to factory has not had the same result, because factory cheese is not yet of such good quality as the better farm cheese. One unfortunate result of the extension of large-scale manufacture has been to concentrate in factories the by-products which were formerly made and used on the farm, and this has adversely affected some other branches of farming.

General.—In a brief summary of the effects of the milk marketing schemes, it is difficult to present the balance of advantages and disadvantages in proper perspective. The benefits which have accrued to the various interests are, in the main, patent and do not, therefore, call for detailed explanation; on the other hand, the points of criticism require to be elaborated if they are to be fully understood. In this respect the position is somewhat analagous to that arising out of the criticism of the schemes by producers themselves. In general, those individuals who have gained remain silent, and the only voices heard are those of the discontented. This tends to create the impression, which is quite contrary to the truth, that the schemes have been prejudicial to producers generally.

It is, therefore, desirable to add that, while all producers have not benefited equally, the schemes have undoubtedly been of great value to milk producers and to agriculture as a whole. Distributors have lost much of their previous control over prices and margins, but as a body they also have benefited from the schemes. The extent of the increase in manufacture is itself sufficient indication that the schemes have not affected manufacturers adversely. The cost of all these advantages has been met by consumers, though they also may gain in the long run by the greater stability given to the milk market.

PART III.—SOME GENERAL PRINCIPLES RELATING TO MILK MARKETING.

CHAPTER 13.—THE MAIN ISSUES.

In the preceding Part of our Report we have examined, in accordance with our terms of reference, the incidence of the milk marketing schemes upon the various groups of interests concerned with the industry. We shall next consider some of the important questions of principle arising out of that examination.

As was to be expected, price policy has proved to be the pivot of the schemes. Their chief effects have been changes in the prices paid to or by the various interests concerned in milk marketing and changes—for example, in the volume of supplies—which are closely connected with prices. Further, most of the complaints about the schemes relate, directly or indirectly, to prices. In consequence the problems discussed in this Part concern chiefly price policy.

The basis of the price systems.—All four of the milk marketing schemes now operating in Great Britain are based on the principles of separating the markets for milk used for different purposes and pooling the receipts from those various markets. It seems desirable to look again at these fundamental principles, of which there has been some criticism, before considering the more detailed problems connected with the working of the schemes. In Chapter 14, therefore, we examine briefly the general questions of the separation of markets and the pooling of returns.

Producers' prices.—The criticisms and proposals that have come from producers have been directed, in the main, to the methods of distributing among producers the proceeds from the sale of milk and to possible means of raising or maintaining the general level of producers' prices.

The distribution of the pool funds among different groups and types of producer presents a number of problems. Many producers feel either that the amount of differentiation is too great or that it is too small; or they disagree with the principles on which the differentiation is based. In Chapter 15 we consider how far differentiation in producers' prices is needed on account of differences in the quality of the milk and in the services provided, and on account of the season and the locality of production. The case of producer-retailers, who constitute an important special group, is considered separately in Chapter 16.

Two major suggestions have been made by producers with a view to protecting the general level of producers' prices under the pooling systems. The first, which is discussed in Chapter 17, is that special measures should be taken to check the expansion of

production, or at least of sales. The most usual form for the proposal to take is not that the quantities produced or sold should be directly controlled, but that each individual producer should be entitled to receive a comparatively high price (related to the price of liquid milk) in respect of a pre-determined quantity, any excess over that quantity being paid for at a lower price. There are, however, several other possible ways of influencing the volume of milk offered for sale which will also require examination.

The other proposal is connected with import policy. It is a common belief among milk producers that many of their difficulties are due to the very large volume of imports of milk products and that the solution of those difficulties is to be found in the reduction of imports. In these circumstances, although we have not been asked to consider import policy and do not propose, therefore, to offer any recommendations on that subject, we examine the possibilities in a general way in Chapter 18.

Transport.—The problems of transport, which are discussed in Chapter 19, are closely connected with the price structure of the schemes. The costs of transport at present fall upon producers and affect the net prices they receive. To some extent, however, they come within the control, directly or indirectly, of the buyers of milk, and ultimately they are reflected in consumers' prices. It is, therefore, important both that transport costs should be reduced to the minimum and also that they should be justly assessed and distributed.

Consumers' and traders' interests.—The last two Chapters in this Part deal more particularly with the problems which organised milk marketing has raised in connection with other interests. The principal complaint of distributors and manufacturers is that the schemes give the right to fix prices to one section of the industry alone, though the prices fixed must affect all sections of the industry. Consumers also are deeply concerned with the way in which price-fixing powers are exercised. This subject is discussed in Chapter 20. Finally, in Chapter 21 we deal with a number of considerations affecting the prices of liquid milk which are obviously of importance for their effect upon the consumption of milk.

There are a number of minor matters and matters not directly related to the producers' schemes that we shall touch upon later. But the problems that we have mentioned here seem to us to call for special discussion; and we deal with the principles involved, therefore, before coming to our precise recommendations.

CHAPTER 14.—THE PRINCIPLES OF SEPARATED MARKETS AND POOLED RETURNS.

The chief marketing principles on which all the milk schemes rest include:—

(*a*) the separation of a high-priced market (for milk for liquid consumption) and a low-priced market (for manufacturing milk); and

(*b*) the pooling, in some degree, among producers of the receipts from the sale of milk in the different markets.

The principles of separate markets and pooled receipts have hardly been questioned on behalf of producers in the evidence given before us, though a good deal of criticism has been directed to the methods by which, and the extent to which, the pooling principle is applied and the consequential effects on different classes of producers. There has been some misunderstanding of the resulting situation on the part of certain other interests, however, and the fixing of widely different prices for liquid milk and for manufacturing milk has been challenged from the point of view of the effects upon consumers and upon the public interest.

(i) The Separation of Markets.

The most usual criticism of the principle of separate markets is that it is unreasonable that milk should be sold for manufacture at prices as low as 3d. per gallon when the price of milk sold for liquid consumption is very much higher and is indeed so high that a large section of the population cannot afford to buy sufficient milk. Frequently this kind of criticism seeks to compare the retail price of liquid milk with the wholesale price of manufacturing milk. It is, therefore, important to remember that a large part of the retail liquid milk price consists of the distributor's margin. Further, liquid milk generally bears higher transport costs than manufacturing milk.

Even after allowance is made for these two factors, however, there is still a very big difference betwen the net return to the producing industry from liquid milk and from manufacturing milk. The recent low values of manufacturing milk (due to the low prices of milk products) on the one hand, and the rising prices of liquid milk during the last few years on the other, combine to make the present difference striking, but it has been usual for some difference to exist between the price levels of liquid milk and manufacturing milk. There are two main reasons for this. One is that, until comparatively recent times, the supply area of the consuming centres was limited on account of the perishable nature of the commodity, so that the price paid for liquid milk had to be high enough to ensure a regular supply from producers serving the local markets. Manufacturing milk, on the other hand, was milk which had no local outlet into the liquid market, and its price depended upon the value in the open market of the much less perishable products into which it was made. This geographical separation of the markets for liquid milk and manufacturing milk became less sharply defined with the developments in transport and processing which made it possible for long-distance supplies to reach the market in good condition, and it has now largely disappeared.

The second reason for the difference in price levels arises from the difference in the conditions governing the two markets. The

liquid market requires regularity of supply and, further, the standard of quality demanded has been steadily rising. On the supply side, these conditions necessitate the payment of a price that covers the cost of maintaining regular supplies of a high standard. On the demand side, consumers have been prepared to pay the prices necessary to ensure the regular provision of milk of the quality desired. With manufacturing milk the conditions are entirely different. Production tends to be more seasonal, so that high winter production costs can to some extent be avoided.

Even before the War the pressure of increasing imports of butter and cheese on the prices of manufacturing milk was beginning to induce producers of milk for manufacture to seek an outlet into the liquid milk market. With some of them supplies were seasonal only, and the additional summer supplies were naturally disturbing to the liquid milk market. Other producers were prepared to alter their methods and to give reasonably regular delivery in order to obtain an entry into that market.

The exceptional conditions prevailing during the War made it possible for producers to dispose of the whole of their supplies at favourable prices. With the return of peace conditions, however, the difficulties presented themselves again and grew in intensity. The agreements made in 1922 and subsequent years between the National Farmers' Union and buyers were designed to protect liquid milk prices from the depressing effects of the low returns from manufacturing milk. Under these agreements different prices were still paid for liquid and manufacturing milk; but for several years before the schemes came into existence the two-price system had been becoming, to an increasing extent, a means of allotting shares in the profitable liquid milk market among all producers who could get a wholesale contract. This is, in effect, the basis of the present schemes.

The possible alternatives.—The alternatives to the two-price system are either to permit unrestricted competition among the supplies for both markets, or to continue to regulate the market, but on the basis of a single price for all milk.

Unrestricted competition would, of course, be disastrous to many producers. Moreover, its advantages from the consumers' point of view can easily be exaggerated. It is true that, owing to the competition of a large volume of supplies for the liquid market, the immediate effect would be a heavy fall in the wholesale price of liquid milk. But almost certainly the new price level would go below the cost of production of a large part of the present supply, and there would be a fall in production; higher prices would then ensue. The general effect of allowing milk prices to be determined by the current supply and demand position would, therefore, be to create great instability in the market.

The other alternative to the two-price system would be to fix and enforce a single price for milk, at monthly levels high enough

to ensure the maintenance of an adequate supply for the liquid milk market. It is scarcely conceivable that the price levels so fixed would permit of manufacture of the less valuable products of milk on a profitable basis unless there were a very great change in the values of those milk products. Apart from the obvious practical difficulties, therefore, a system of this kind would have the disadvantage that the reserve which must be produced to ensure a regular supply, and the summer flush production, which cannot be altogether avoided, would have to be wasted (being unsaleable at the fixed price) unless a use could be found for this milk on farms.

In principle, therefore, the two-price system appears to be justified as a practical means of disposing of the reserve to the liquid milk market and of any unavoidable surplus.

Realisation values for manufacturing milk.—The further question whether manufacturing milk should be sold at a flat price or at prices differentiated according to the commodities into which it is manufactured was discussed in some detail in the Report of the Grigg Commission*, and we think it unnecessary to repeat the arguments which are there set out. If the principle of the separation of the markets for liquid milk and for manufacturing milk is accepted, then it seems impossible to escape the conclusion that, for similar reasons, the manufacturing milk market should again be sub-divided, and that buying prices for manufacturing milk should be fixed according to the realisation values of the milk used in the manufactured products. The admission of the principle of price differentiation also raises the question of how far it may be applicable also to the wholesale provision of liquid milk for re-sale at special prices to different classes of consumers.

(ii) The Pooling of Receipts.

If the principle of separate markets with different price levels is accepted, it seems to follow also that some measure of pooling of receipts is essential in order to avoid grave inequality of treatment as between one producer and another. It is true that, in theory, the idea of separate markets can be disassociated from that of pooled receipts. It is possible to imagine, for instance, that a producers' Board might fix the prices at which milk was to be sold for various purposes and provide that each producer should receive the price obtained for the actual milk which he sold, less a deduction to cover the Board's expenses.

In the circumstances of the milk industry, however, a system of that kind could never be acceptable to producers generally, even if it could be made to work. Those individual producers who were able to sell their milk into the liquid market would get high prices, while those whose supplies went into manufacture would receive much lower returns. It is clear that these conditions, in which

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* Economic Series No. 38, page 119.

some producers would occupy a highly privileged position in relation to others, could not be maintained for long. The pooling of receipts in some degree is necessary in order to recompense those producers whose milk goes into the low priced market for refraining from selling it into the liquid milk market at a price higher than they would otherwise obtain, although lower than the price for liquid milk.

(iii) General.

Our general conclusion on this subject is that there is no practical alternative to the system of separated markets and pooled returns; but we leave for discussion in later Chapters the criticisms that have been made regarding the systems of pooling adopted under the different schemes and the considerations that should, in our view, govern the application of the pooling principle.

CHAPTER 15.—DIFFERENTIATION IN PRODUCERS' PRICES.

In the preceding Chapter we explained our reasons for believing that some form of separation of markets and pooling of returns should be retained, in the general interest as well as in the interest of producers. In this Chapter we shall consider how far there should be differentiation in the prices paid from the pool to different classes of producers in order to secure the best distribution of returns having regard again to the general interest as well as to the interests of the various classes of producers concerned.

(i) Differentiation for Quality.

In the first place, there is obviously a strong case for paying different prices to producers for milk of different qualities. Under the present arrangements operating throughout Great Britain, premiums for quality are already payable, partly by wholesale buyers (and ultimately by consumers), partly from the general pool funds under each scheme and to some small extent (through the Attested Herds schemes) out of Government grants.

Higher prices are normally payable by buyers of milk of Certified and Grade "A" (T.T.) grades. As sales of milk of these grades are at present exempt from the English scheme, producers in England and Wales must make their own arrangements with distributors as to prices. The amount of the premium, if any, is thus determined separately for each contract. Under the Scottish schemes distributors are required to pay prescribed premiums for milk sold under these grade designations. That portion of a producer's supplies which is not sold under the grade designations is normally paid for at the standard price; but a producer of Certified milk who is unable to sell the whole of it at the appropriate price may be able to sell the remainder at the price fixed for Grade "A" (T.T.) milk. Further, under the Scottish schemes, deductions

may be made from the pool prices payable to individual producers if the butter-fat content of their milk falls below a given standard.

The principle of guaranteeing a premium to producers has been adopted in England and Wales under the Accredited milk scheme. Distributors do not normally pay any premium for such milk, though some stipulate that it should be supplied as a condition of the contract. The fund required for the payment of Accredited milk premiums is obtained by a levy on all milk sold by registered producers.

The Northern Ireland plan.—We have examined with great interest the system adopted in Northern Ireland,* which seems to offer a sound and comprehensive plan of quality improvement under the conditions existing in that area. Milk is classified in four grades, and premiums are paid to producers on each of the three upper grades, regardless of the use to which the milk is put. The lowest grade, which earns the lowest price, may not be sold for liquid consumption. The actual returns to producers for the three upper grades are progressively higher than those for the lowest or manufacturing grade. As, however, a much larger proportion of the total output of milk is consumed in liquid form in Great Britain than in Northern Ireland, this plan does not appear to be immediately practicable here. The quantity of milk available, of or above the Accredited milk standard, would at present be insufficient to meet the liquid milk requirements.

In view of the importance both to the public and to producers of raising the standard of quality as rapidly as possible, it is clearly desirable that provision should be made for the prices payable to all milk producers to be differentiated according to quality. The premiums for the higher grades should be payable regardless of whether or not the price obtained for the milk in the market is above that of ordinary milk, though high grade milk should, where possible, be directed into the liquid market. The funds needed for the payment of the premiums should be obtained through a levy on the whole of the milk sold; and enforcement of grade standards should be uniform. Provision could be made for quality differentiation on these lines under any pooling system. The amounts of the premiums should be capable of adjustment in order to give whatever measure of encouragement was needed to the production of milk of improved quality.

(ii) Differentiation for Season of Production.

We have heard of no objection from producers to the general principle of differentiating producers' prices according to the season of production. It seems to be generally agreed that the higher costs of winter production should be reflected in higher prices, although there is some disagreement as to what should be the degree of difference between summer and winter prices.

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* See Appendix II on page 297.

It is claimed on behalf of level producers that level production is itself a useful service and that their returns ought not to be allowed to be depressed in the flush months by the heavy sales of seasonal producers, whose costs are then low. They contend that level production costs more, not only in the winter months, but also in the summer months; and consequently that their average prices throughout the year should be higher by an amount sufficient to cover their additional costs. Level producers urge that they are entitled to special treatment on the ground that their system of production has a special value in ensuring the supply of the liquid milk market.

Where level delivery is required by an individual buyer, it is obviously right that the price paid by that buyer should include an additional sum to cover any extra cost.* But the case for paying level producers generally, out of the pool, at a higher rate than seasonal producers must depend upon the general necessity for level production. It is purely a matter of expediency how far level production should be specially rewarded.

The relative merits of level and seasonal production, as a means of supplying the primary (i.e. the liquid) market, depend not only on production costs, but also on the value realised for the surplus. Considered in this light, low-cost production is not necessarily the most economic: for if it were combined with wide seasonal variations of output, an adequate supply would not be secured for the winter market unless a large surplus were carried in summer; and any loss incurred in the disposal of this surplus would have to be set against the lower production costs.

Seasonal differences in prices may affect other interests than those of producers through their influence on the seasonal incidence of supplies. On the hypothesis that manufacture should be developed, the Grigg Commission† suggested that the summer price should be sufficiently attractive, relatively to the winter price, to ensure that the bulk of the production for manufacture should be concentrated in the summer months, when production costs are at their lowest and the quality of the milk makes it most suitable for manufacture. The final cost of manufactured milk products depends, however, not only on the cost of the milk, but also on that of manufacture. In considering how far the production of manufacturing milk should be concentrated in the summer months it is necessary, therefore, to take into account not only the relative advantages of seasonal milk production, but also any relative advantages or disadvantages that may attach to seasonal manufacture.

There is, we think, no doubt that some differentiation between the levels of summer and winter prices will continue to be needed; but whatever system of differentiation is adopted should offer a flexible and effective means of influencing the seasonality of output

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* This aspect of the matter is dealt with later in the Chapter (page 138).

† Economic Series No. 38, page 104.

in such way as may be desired. This differentiation could be secured either through seasonal variations in producers' prices, or through a combination of such price variations with a system of level delivery bonuses payable out of the pool fund. We think, however, that the aim can be achieved by the first of these methods alone, and that it is unnecessary, therefore, to introduce the further complication of level delivery bonuses except where they represent payment for special services rendered to individual distributors.

Methods of controlling seasonal variations.—There are a number of methods by which seasonal differentiation in the level of producers' prices can be secured. One method, used at present under all the schemes except that in the North of Scotland, is to vary the monthly prices at which milk is sold for liquid consumption and in this way to affect the monthly income of the pool. This method is not very reliable for the purpose in mind, nor is it very flexible. In the first place, the producer's pool price depends not only on the level of the liquid milk price, but also on the proportion of the total output that has to be sold for manufacture in each month and the prices received for manufacturing milk. Any unexpected variation in the supply may cause the pool price to vary from the level anticipated. Secondly, buyers are closely concerned with the level of liquid milk prices, and it cannot therefore be altered without affecting them.

The monthly levels of pool prices could also be regulated by withholding part of the income from the sale of milk at one season and adding it to the pool fund at another season. The Grigg Commission recommended* that part of the inter-regional compensation fund raised in winter should be held in reserve and used in summer to maintain pool prices. In this way the necessity for deducting a heavy levy on liquid milk prices in summer would be reduced. The English Board used this method in the first year of the scheme, but has not used it since.

Another method of controlling the seasonal level of producers' prices is through some form of the " basic quantity " plan, the essence of which is that a producer receives one price for a part of his output and a lower price for the remainder. Under the basic quantity system in the form in which it has been operated under the two smaller Scottish schemes, each producer is allotted a basic quantity, which is determined by reference to his output in certain winter months, and is paid at a much lower rate for all output in excess of that quantity. Since a producer will receive a much lower price if his summer output greatly exceeds his winter output than if his production is fairly level, the system tends to encourage level production. The system has the advantage that a producer can make, in advance, a fairly accurate calculation of the price which he will receive if he plans his production in a given way. It should

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* Economic Series No. 38, page 103.

be noted, however, that if the individual basic quantities of producers are fixed for a period of years, the system becomes a means of controlling total production, not merely seasonality of production.*

The form of basic quantity plan adopted in the two small scheme areas appears to have worked smoothly there, but it must be remembered that production conditions are fairly uniform throughout these areas, so that there is no great clash of interests as between level and seasonal producers. Further, producers were accustomed to the system in this form, since it had been worked on a voluntary basis in the Aberdeen area for several years before the beginning of the statutory schemes. It is certainly an effective means of controlling the seasonal incidence of supplies, but it is not flexible and operates only in the direction of securing more level output. In the other scheme areas there are much wider differences in the conditions of production. In our view this method of seasonal control is not suitable for general application because it would have the effect of encouraging level production by every individual, regardless of his circumstances; and this is not necessarily desirable.

Somewhat similar to this form of basic quantity plan is the system of paying a bonus on producers' sales so long as they do not vary by more than a prescribed percentage from a basic quantity which is constant for each month of the year. A modified form of this arrangement was introduced in the main Scottish scheme under the Secretary of State's amendments. Like the basic quantity plan, this system is open to the objection that it must tend to promote level production by each individual; and, as we have said, we do not think that it will necessarily be desirable to foster level production on the part of every producer.

It would be possible, however, to devise a form of basic quantity plan in such a way as to allow producers' basic quotas to be fixed at different levels in summer and in winter and thus to avoid giving more encouragement to level production than was desired. Yet another variation, still farther from the idea of basic quotas as generally understood, would be to pay the higher price for a specified proportion of each producer's output and the lower price for the remainder, fixing different proportions for different months. This system would resemble the Class II (*b*) contract under the pre-scheme London Agreements.

Under the basic quantity plan in the various forms in which it has been operated in Great Britain before and since the beginning of the schemes, the price payable for a producer's basic quantity has been related to the current liquid milk buying price. In consequence the seasonal level of producers' returns has been affected not only by the basic quantity provisions themselves, but also by variations in the buying price of liquid milk.

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* This aspect of the basic quantity system is discussed in Chapter 17.

The elements of seasonal price control.—For the reasons we have already given, it is undesirable to rely upon variations in liquid milk buying prices as the means of controlling seasonal differentiations in producers' prices. The alternative appears to be to regulate producers' monthly prices directly, independently of whatever seasonal variations are made in the current buying prices for liquid milk.

As we have seen, one advantage of the basic quantity plan is that it enables the individual producer to ascertain beforehand, more or less, the returns that he may expect for his milk and to frame his production policy accordingly. If seasonal price variations are to be effective in influencing the seasonality of production, it is desirable that, in the same way, the prices to be paid to producers during each month of the year should be made known to them before the beginning of each contract period. But while assurance would thus be given to producers, it would be possible, by making suitable adjustments from year to year in the schedule of monthly prices, to exercise effective and flexible control over the seasonality of production. The total of the sums payable to producers over the year could not, of course, exceed the total income from which those sums had to be paid: but within the year there would be room for adjustments of monthly prices; the monthly outgoings from the pool would not necessarily be equal to the monthly income.

(iii) Differentiation according to Locality.

Before the schemes came into being, there were two main factors which contributed towards the differences in the prices received by producers on account of differences in their geographical situation. In the first place, the gross prices payable to producers were dependent not only upon the level of liquid milk prices, which itself varied in different parts of the country, but also upon whether or not their situation had enabled them to obtain contracts with buyers who were prepared to pay liquid milk prices. Secondly, over and above these differences in gross prices, there were differences in net prices due to the differences in the charges for transporting the milk from seller to buyer.

Though each of the schemes continues to differentiate between individuals in respect of their transport charges, the *gross* prices received by producers in different situations no longer depend on how much of their milk they are able to sell in the liquid milk market, or where they sell it. On the other hand, the schemes have introduced two new methods of differentiating between prices received by producers in different localities. The first method is to vary producers' gross prices according to the district of production. In England and Wales this is done through the regional pooling system; in Scotland, somewhat similar differences have resulted from the setting up of three separate schemes, with separate price systems. The second method, which has been

adopted under the main Scottish scheme (as amended), is to operate a transport charge system which results in producers in one part of the scheme area paying heavier average charges than those in the other part and thus in differentiating between the net prices received by producers in those two parts.

The question of differentiating producers' prices according to their locality has caused much controversy. The opposed points of view are represented, on the one hand, by those who want a differentiation in producers' prices according to districts and, on the other hand, by those who wish to have a flat price* to producers over the whole area covered by a scheme.

Obviously, the size and character of the scheme area and the system of payment are relevant in considering this question. The two Northern scheme areas are relatively small and homogeneous as regards production and marketing conditions; their price system is designed to protect established producers; they have no pressing internal problem of " surplus " production; and they are insulated from external competition. It is only to be expected, therefore, that most producers under these schemes should be fairly well satisfied with the present position. In the two main scheme areas, however, there are wide differences in production and marketing conditions in different districts; the price system gives no special advantage to the established producer as such; and a large proportion of the total output has to be sold at low prices for manufacture. Hence the question of differentiation according to the producer's situation is discussed below primarily with regard to the two latter schemes. But the issues raised are, in fact, wider. For if price differentiation according to district is not desirable as a permanent feature of a large scheme, it may be difficult to defend the existence of small schemes which have given rise to inter-scheme agreements designed to protect producers in certain districts from the competition of those in others.

The producers who wish to maintain or increase the present local differences in prices within a scheme area are, broadly speaking, producers in the East of the main Scottish area, who benefit from the changes in the haulage charge arrangements due to the creation of additional haulage centres, and producers in those regions of England and Wales where the pool price is still above the average for all regions. But there are also many producers situated near towns in other parts of the country who, no doubt, consider that they should receive a higher price than the more outlying producers, and who will only favour the flat price system (inasmuch as it would give them a higher price than their present regional pool price) if they cannot get some system of differentiation which will go still further towards meeting their demands.

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* By " flat price", here and throughout the remainder of this Chapter, is meant a price not differentiated according to district of production. Questions of differentiation by reference to quality, season of production and transport charges are considered separately.

The case for differentiation put forward by these groups of producers is briefly as follows :—

> Before the schemes came into force their favourable situation relative to the liquid milk markets had enabled them to establish themselves as regular suppliers of liquid milk and to obtain the goodwill of distributors. They had invested capital—in many cases in specialised dairy farms—on the assumption that they would continue to receive high prices. Their costs are higher—at least in some districts of the east of England and of Scotland—on account of the shorter grazing season, higher rents and higher costs of labour ; and also because, on the whole, they have followed a more level system of production, with the additional expense and trouble involved by the " flying stock " system, or by the alternative method of arranging for cows to freshen at different times of the year. Because they are nearer to the markets, they can provide a better service as regards quality ; and on account of their relatively level production, they furnish the liquid market with more regular supplies and do not contribute as much to the seasonal surplus as do the more outlying producers. Even though there was a tendency before the schemes came into being for milk from outlying districts to invade the markets supplied by these producers, they had some chance of resisting it with their advantages of situation and of personal contacts with distributors ; and if, in some cases, they began to find the competition too strong, they at least had time to adjust themselves in one way or another to the new conditions.
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> But a pooling system giving a more or less uniform price to all producers accomplishes at one blow the worst that the competition of seasonal producers could have effected over a period of years. Though in the main the near-in producers continue to supply the same markets, they are deprived of the advantages naturally associated with their services and reduced to equality, as regards terms, with those whose services and costs are on an entirely different scale. The deductions made from their liquid milk prices are in themselves unjust ; but it is even more unfair that these, by swelling the returns from manufacturing milk, should go to assist an increase in sales in which they themselves do not participate to any great extent, and which must contribute to the further depression of prices.
>
> Unless they are afforded adequate returns many of them will be forced out of business, the capital invested in their holdings will be wasted, the value of the land will decline, and the whole agricultural economy of their districts will be seriously affected.

Against these views in favour of differentiation by districts the advocates of a flat price have advanced the following case :—

> There is no justification for any difference in the levels of returns to producers other than that which represents a

difference in transport costs or in actual services. Producers of other commodities are treated alike wherever they may be situated; in consequence production tends to be concentrated in the districts and on the land best suited to it. With milk, it is not only unfair to give price advantages to particular parts of the country or to particular classes or groups of producers; it is also unreasonable to encourage production in places where it cannot be undertaken economically. The payment of higher prices to those producers who assert that their costs are higher perpetuates high-cost production and makes for unnecessarily high prices to the consumer.

Those parts of the country where grazing is plentiful are the most naturally suited to milk production. Before the schemes came into existence milk produced in those districts was already finding a market in the main consuming areas. Recent improvements in processing and transport were accelerating the movement; and had there been no schemes, it would have gained greater rapidity with the increasing disparity in the values of liquid and manufacturing milk. The mobility of supplies would have brought about uniformity of returns in any case. The schemes will have fulfilled their function if, through organisation, they maintain those returns above the low level that they would otherwise have reached.

After carefully considering the arguments on both sides we have formed the conclusion that the case against differentiating producers' prices according to districts is very much the stronger on economic grounds, but that, on grounds of equity, there is a case for continued differentiation for a period.

The case for a flat price as a final objective appears to us indeed to be unanswerable, unless it is desired, for reasons of agricultural policy, to maintain a certain geographical distribution of dairy farming; and if such a policy is adopted, its cost should, in our opinion, be borne directly by the State rather than by the consumer of milk. For with all except the most perishable commodities, whether under marketing schemes or not, there is one market for all producers, namely, the whole country; and the only permanent price differences are those due to differences in services and in transport costs. We see no reason why the same conditions should not ultimately apply with milk. They have not done so previously because of the relative immobility of supplies. It is certain that changes in transport conditions were having important effects on the sources of liquid milk supplies in pre-scheme days and that suppliers of the liquid market were being forced by the increase in competition to accept lower prices. The milk schemes were, in fact, introduced in order to prevent the collapse of the market as a result of the increased competition. But we do not believe that the schemes, or the Agricultural Marketing Acts themselves, were intended to prevent consumers from benefiting as a result of technical developments, whether in production or in transport arrangements; yet this

is what would occur if certain classes of producers were given a permanent prescriptive right to receive a special price merely because they were situated in certain districts or had previously supplied certain markets.

Such producers should, of course, be able to qualify for premiums for any recognised service, or for quality, on the same footing as producers elsewhere. Similarly, in so far as they are level producers they should be able to benefit from seasonal differences in prices. But we see no reason why higher rents or other costs should in themselves entitle these producers to receive higher prices indefinitely. It seems unnecessary, in principle, therefore, to go into the question of the relative levels of costs in different districts; but it may be well to point out that such limited data on costs as we have seen (relating only to England and Wales) do not suggest that costs are necessarily higher in the districts that are claiming higher prices.

Although it seems to us desirable that prices should ultimately be flat throughout a scheme area, we consider that uniformity should be achieved gradually. In this we agree with the view expressed by the Grigg Commission that a single pool for a large area (England and Wales) would not be immediately practicable because of the disturbance it would create.* The history of the main Scottish scheme, which was designed to operate a single pool, has shown how well-founded was this view. It was soon found necessary in that case to mitigate the effects of the single pooling system on producers in the east of Scotland, at least for the time being, by special concessions which were not provided for in the pooling system itself.

If a flat price applicable uniformly to all districts were introduced, there might well be a tendency to fix the new price no lower than the highest previously paid in any district. It would be undesirable that prices should be levelled up in this way, especially if it were done by increasing the liquid milk price. If, on the other hand, flat prices meant a sudden levelling down of the gross prices received by producers who still enjoy a preference on account of their situation, undue hardship, and possibly severe dislocation of the existing farming economy, would be likely to occur in certain areas.

The factor of rent is important in this connection. In so far as high rents are based on previous high profits in the dairy industry, they cannot properly be regarded as an element in the necessary costs of production; but unless rents were adjusted in conformity with changes in the levels of profits, cases of individual hardship would ensue. The adjustment of rents to changed market conditions is, however, apt to be slow. Many producers might be called upon to pay rents which were supposed to reflect an especially privileged position in the milk market, when their privileges had in

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* Economic Series No. 38, page 96.

fact disappeared. On the other hand, many producers in the more outlying districts may at present be enjoying exceptional profits because their rents have not yet become adjusted to the new conditions. We do not wish to imply that high or low rents justify, respectively, high or low prices. Where the high rents of a district are due, for example, to the building value of the land, there is no case for protecting the producers who happen to occupy it; for production ought to be transferred to a more suitable situation. There is, however, a case for adjusting prices gradually so as to give time for rents to conform more nearly to the current rates of profit in those districts where rents are closely connected with the level of profits in dairying.

A further point in favour of making the transition to a flat price gradual is that the producers who were adversely affected by the change would have time to alter their methods of dairy farming. If circumstances required it, many of those using the "flying stock" system, for example, should find it possible to change to a less intensive and less costly system of production.

On the whole, therefore, we consider that, for the time being, there should continue to be some differentiation of prices according to the district of production. But if a flat price is to be the ultimate objective—as we think it should be—the method of differentiation should be flexible so that the margins of difference between the prices paid to producers in different districts may be progressively reduced.

The method of local differentiation.—The system adopted in the main Scottish area for securing differentiation in producers' prices according to district depends upon the number and the situation of the haulage centres prescribed. It seems to us undesirable to use what is ostensibly a means of allocating transport costs for the further purpose of differentiating between prices received by producers in different districts. Moreover, as a system of differentiation by districts, it is inconvenient and inflexible because the relationship between prices in different districts can only be altered by revising the list of haulage centres.

On the other hand, the method of differentiation according to regions (of which the English pooling system provides an example) is fairly flexible. Provided that each region has reasonably homogeneous conditions of production and marketing and that the margins of difference are suitable, there can be little ground for objection to the system. In practice it would be impossible to arrange for regions that were completely homogeneous. It would greatly complicate the operation of any scheme to provide for separate levels of prices in a large number of small regions. But although differentiation on the basis of large regions, as under the English scheme, has its imperfections, we think that it can be made to work reasonably fairly as between different sections of producers, while permitting steady progress to be made towards a flat price.

(iv) Premiums for Special Services.

Where producers undertake to provide special services at the request of buyers, it is reasonable that suitable additional payment should be made in respect of those services. The special services that have been recognised under the schemes have taken a number of forms, the most important of which is level delivery.

Level delivery premiums.—In securing his requirements an individual distributor has two courses open to him. He may obtain his supplies under the ordinary form of contract and himself bear the responsibility of disposing of surpluses and making up deficiencies; or he may obtain a level delivery contract (if he can find a producer who is willing) and so place the responsibility for " balancing " supplies on the producer. The level delivery premium is presumed to represent the extra cost to the producer and the additional advantage to the purchaser.

In every case the distributor who secures level delivery is relieved of at least some part of the cost of balancing supply with demand. Every producer who sells on a level delivery contract, however, is not necessarily saddled with additional costs as a consequence. If the individual producer retains any surplus beyond the amount specified in the level delivery contract and either manufactures that surplus or uses it on the farm, then he bears the costs of " balancing " which would otherwise fall upon the distributor; but not if he sells that surplus on an ordinary contract. Under the English scheme (para. 57 (i)) it is provided, in effect, that if a producer with a level delivery contract does not retain on the farm the excess over the specified quantity, then the Board may retain an appropriate portion of the level delivery premium to which he would otherwise be entitled. We understand, however, that it has not been found practicable to use this provision under existing conditions. In consequence a number of English producers have been able to secure level delivery premiums on part of their output and to dispose of the remainder on ordinary contracts; and it appears that producers under the main Scottish scheme have been similarly placed.

Where an individual producer supplies a buyer with level quantities and is able to dispose of the remainder of his output on an ordinary contract, it is not he, but the Board, that is carrying the burden of the surplus. In principle, therefore, it would seem that, while the distributor should be required to pay the level delivery premium in such cases, it should accrue, not to the individual producer, but to the Board, for the benefit of producers generally. To apply this principle in England it will be necessary to overcome certain difficulties, dependent upon the present system of assessing transport charges, which have prevented the English Board from using its power under paragraph 57 of the scheme. Further, the application of the principle in the case of producer-retailers raises some special questions which are discussed in the following Chapter.

(v) General.

The bases of price differentiation.—The general conclusion that we have reached is that permanent provision should be made for producers' prices to vary according to the quality of the milk and the season of production; and further, that temporary provision should also be made for regional differences in these prices.

The desirability of graduating producers' prices according to quality, in the interests both of the public and of the industry, is hardly open to question. Our view is that, in order to encourage improvement in the quality of production, the differentiation in the prices paid to producers on account of quality should be independent of whether the higher grades of milk are able to secure price premiums in the market.

Seasonal variations in price levels should serve as a means not only of rewarding producers for winter production, but also of controlling the seasonal incidence of supplies. The method of varying the seasonal price levels should, therefore, be flexible and should not depend on the current level of liquid milk prices or on any rigid formula. Seasonal price variations would be more effective for their purpose if the prices were determined and published in advance.

Regional variations in producers' prices are a convenient means of differentiating between classes of producers whose costs differ materially by reason of differences in their situations and circumstances. The method should be designed to mitigate the hardship that some classes of producers would suffer if a flat price were payable throughout the area of a scheme. But since the ultimate aim should be to encourage production where it can be undertaken most economically, these differences should not be regarded as permanent.

In addition to the general differentiation of prices on grounds of quality and of the season and district of production, individual producers should continue to receive any premiums in respect of special services which they render to buyers. While premiums for level delivery should be paid by all buyers who require that service, the premiums should accrue to the individual producer only where he bears the cost of disposing of his surplus; in other cases the premiums should accrue to the Board.

The fixing of price differentials.—Any specific proposals for varying producers' prices according to quality, seasonality and district of production must tend to affect different classes of producers in different, and indeed even in opposite, ways. In point of fact, the methods of distributing the income of the pool among different classes of producers are matters with which the criticisms of producers have been most concerned. We have pointed out that this question is also of public interest, since the amounts

of the differentials must be expected, sooner or later, to affect both the quality and the price of milk. We have, indeed, suggested that it should be a matter of deliberate policy to influence production in certain ways by means of price differences.

In these circumstances it seems to us that a Board consisting almost entirely of producers' representatives is not the most suitable body to discharge the responsibility for deciding upon the amounts of differentiation. Where members of a Board are elected on a regional basis, as in England and Wales, their constituents are likely to consider that their chief function is to obtain a high price for their region and for the type of producer most common in it; and even where there is only one constituency, as under each of the Scottish schemes, particular groups of producers may fear that they will be treated inequitably because they are in the minority.

Further, the other interests concerned may also entertain some doubt as to whether a producers' Board, pressed by its constituents for immediate results, would, in assessing the different levels of prices, pay sufficient attention to long-term needs. It may even be suggested that the difficulties of the elected representatives might lead them to seek a solution for the sectional differences of producers at the expense of liquid milk consumers.

For these reasons it is obvious that a large measure of independent judgment should be introduced in taking decisions on price differences, whether in respect of quality, season or situation, so that all sections of producers may be assured that they are receiving impartial treatment and that full consideration may be given to the public interest.

CHAPTER 16.—THE POSITION OF PRODUCER-RETAILERS.

The Grigg Commission, in preparing the frame-work of the English scheme, came to the conclusion that the participation of producer-retailers in the scheme was essential: first, because they, in common with all other producers, would share in the benefits derived from it; and secondly, because if they were left outside, the success of the scheme would be imperilled. It is evident that the promoters of the other schemes must have reached substantially the same conclusion, for in each case producer-retailers have been included. We agree that it would be impracticable to leave producer-retailers outside, and indeed the principle of inclusion has not been seriously challenged by those witnesses who have appeared before us on behalf of producer-retailer interests.

We have, however, received a number of representations as to the methods of assessing the contributions payable by producer-retailers and, more especially, as to the amount of those contributions. These matters have given rise to great anxiety on the

part of producer-retailers and have presented serious problems to certain of the Boards; and the Boards have been faced with difficulties in the collection of contributions. Before proceeding to discuss these matters, however, it will be desirable to review the general situation.

(i) The Numbers and Importance of Producer-Retailers.

Producer-retailers constitute an important element in the structure of organised milk marketing. Numerically, they account for about two-fifths of all the producers registered under the four schemes operating in Great Britain; and the gallonage which they sell by retail (according to returns made by them) is rather more than one-sixth of the total sales of liquid milk under the schemes.

Producer-retailers are not equally important under all the schemes. In the North of Scotland they comprise some two-thirds of the total number of registered producers and sell by retail more than one-half of all the milk controlled by the Board. In the Aberdeen area producer-retailers constitute one-half of the total number of producers, but account for a much smaller proportion of the total sales. In the main Scottish area, they represent nearly one-third of the total producers, and nearly one-quarter of the sales for liquid consumption. In England and Wales they comprise two-fifths of the registered producers, and their sales by retail account for about one-sixth of all the milk sold for liquid consumption.

Like all other producers, producer-retailers are free to sell on wholesale contract if they wish, and many of them do, in fact, adopt both methods of sale. Evidence furnished by the English Board shows that, in the first year of the scheme, the quantity of milk sold on wholesale contracts by producer-retailers was almost as much as that sold by retail. It is probably very much less in each of the other areas.

(ii) Contributions to the Boards.

Methods of assessment.—In England, the producer-retailer's contribution* to the Board at present consists of:—

(*a*) the inter-regional compensation levy for his region; and

(*b*) three-quarters of the difference between the liquid milk price of his region (less the inter-regional compensation levy) and the pool price for the region.

In the Grigg Commission's Report, it was suggested that the proportion to be used in the second of these component parts of the contribution should be nine-tenths; but in the scheme adopted by the industry " three-quarters " was substituted. The effect of

* A producer-retailer with not more than four cows has the option of paying on a cow basis.

the formula* is that producer-retailers are called upon to contribute towards the equalisation of returns slightly less per gallon than other producers in their region.

The producer-retailer is entitled to deduct from the amount of his contribution to the Board any premium or bonus for which he has qualified. In this way he can obtain the level delivery premium of 1d. per gallon if he sells no milk through the Board or if he sells only on wholesale contracts providing for level delivery. Similarly, he can qualify for the Accredited bonus of 1d. per gallon on the same terms as other producers.

The English Board have, however, recently submitted a number of draft amendments to the scheme which include proposals for altering the basis on which producer-retailers' contributions are assessed. It is proposed that the contributions shall be as follows :—

On Certified or Tuberculin-tested milk	$\frac{1}{2}$d. per gallon.
On Accredited milk	$\frac{3}{4}$d. per gallon.
On any other milk	$1\frac{1}{2}$d. per gallon.

It is further provided in the draft amendments that if a producer-retailer sells any milk by wholesale, his contribution on his retail sales shall be increased by $\frac{1}{2}$d. per gallon, and if he fails to make prompt payment his contribution shall be increased by a further $\frac{1}{2}$d. The Board reserves the right to alter by prescription the grades of milk qualifying for the respective rates of contribution and to vary from time to time all or any of the rates. If these amendments are approved, the effect will be to reduce the general level of contributions and to eliminate both the monthly and the regional variations in amount which occur under the present arrangements.

Under the main Scottish scheme†, producer-retailers were originally required to pay nine-tenths of the levy payable by ordinary producers. The temporary amendments made to the scheme by Order‡ of the Secretary of State for Scotland, which came into

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* The following example shows the method of calculating the contribution of a producer-retailer in the Southern region for March, 1936:

(*a*) The inter-regional compensation levy for the month ...	= $2\frac{1}{4}$d.
(*b*) The liquid milk price of 17d., less the inter-regional compensation levy of $2\frac{1}{4}$d.	= $14\frac{3}{4}$d.
The pool price was $13\frac{1}{2}$d., and the difference between this and the liquid milk price less inter-regional compensation levy (i.e. $14\frac{3}{4}$d. — $13\frac{1}{2}$d.)	= $1\frac{1}{4}$d.
Three-quarters of this difference	= $\frac{15}{16}$d.
The total contribution per gallon for March, 1936, was thus $2\frac{1}{4}$d. + $\frac{15}{16}$d.	= $3\frac{3}{16}$d.

The difference between the liquid milk price (17d.) and the price paid to ordinary producers (i.e. the pool price in the Southern region of $13\frac{1}{2}$d.) was $3\frac{1}{2}$d. in this month.

† See footnote on page 30. This paragraph is intended to describe the basis on which the Scottish scheme was administered prior to the decision of the House of Lords in the Ferrier case.

‡ S.R. & O., 1934, No. 1437.

force in January, 1935, substituted flat payments on a " per cow " basis for most producer-retailers. Those who were selling an average of more than eight gallons per day by retail in November, 1934, were required to pay at the rate of £5 per cow per annum; and a lower rate of £4 per cow per annum was provided for all those selling milk by retail in November, 1934, who undertook not to sell any milk except by retail. Some 60 per cent. of the producer-retailers under the main Scottish scheme obtained the advantage of the new rates. The remaining 40 per cent. continued on the old basis. A more recent Order* of the Secretary of State enabled any producer-retailer to revert to the " nine-tenths " basis if that were more favourable to him.

In the North of Scotland the levy payable is equal to seven-tenths of that payable by ordinary producers. The Aberdeen scheme provides for assessment on a " per cow " basis, the amount of the contribution per cow being determined from time to time by the Board. It is understood that the present levy is at the rate of £2 per cow per annum, but that, in fact, the contributions required from producer-retailers are computed on their sales. For the purpose of assessment it is assumed that the output of each cow is equivalent to two gallons per day, and contributions are required at the rate of £2 for each 730 gallons sold by the producer-retailer in the course of the year.

Level of contributions.—Since the amount of the contribution hitherto required from producer-retailers in England and Wales has depended upon the difference between the wholesale buying price of liquid milk and the pool price and upon the amount of the inter-regional compensation levy, it has varied from month to month and from region to region. Its level tends to rise or fall with the price of liquid milk; and it also tends to move up or down as the proportion of manufacturing milk to liquid milk increases or decreases.

During the first year of the scheme, the average amount of the contribution over England and Wales as a whole varied from about $1\frac{1}{4}$d. in the lowest month to 2d. in the highest month. In the second year, in consequence of the increase in the proportion of manufacturing milk and of the higher wholesale prices for liquid milk, the amount varied from an average over all the regions of nearly 2d. in the lowest month to an average of rather more than $3\frac{1}{2}$d. in the highest: the maximum sum payable was $3\frac{13}{16}$d. which was the amount of the contribution in three regions during April, 1935. In April, 1936, the amount of the contribution rose to $4\frac{3}{16}$d. in four regions and averaged nearly 4d. for the whole scheme area.

All the figures given in the preceding paragraph relate to nominal rates of contribution. Where a producer-retailer is entitled to any premium or bonus, his contribution is reduced by that amount. After taking into account level delivery premiums (but not Accredited milk bonuses, which first became payable during the course of the second year) the weighted average payment actually

* S.R. & O., 1935, No. 1246.

made by producer-retailers in the first year of the scheme was 0·89d. and in the second year 1·99d.

Since February, 1935, the English Board has provided that the variations in pool prices from one region to another in any month shall not vary by more than 1d., and this limitation of the maximum and minimum of pool prices has had an adverse effect on the position of producer-retailers. In effect, the limitation requires the raising of higher levies for inter-regional compensation, and the higher the rate of these levies the narrower the difference between the liquid milk price less the inter-regional compensation levy and the pool price for the region, and thus the lower the value of the allowance of one-quarter of this difference to the producer-retailer. This limitation of the variation in pool prices tends to equalise the levies made on producer-retailers in different regions, raising the levies in those regions which tend to enjoy the higher pool prices and reducing them in the regions which tend to suffer the lower pool prices; but its net general effect on producer-retailers is to raise the rate of their contributions. On the other hand, in October, 1935, the rate of level delivery allowance to producer-retailers was raised from ½d. per gallon to 1d., thus restoring the rate to the level at which it had stood in the first six months of the scheme.

In the main Scottish area the contribution averaged about 3d. per gallon during the first year, and rose as high as 4·38d. during the months of May and June, 1934. In consequence of the revised method of assessment, the average for the second year was reduced to about 2d., the highest figure for an individual month being 2·35d. in February, 1935.

Under the Aberdeen scheme the method of assessment adopted has resulted in maintaining the producer-retailer's contribution steady at 0·66d. per gallon ever since the inception of the scheme. In the North of Scotland, although the contribution is based on that of other producers, the amount has been only about 1d. per gallon, because the operation of the basic quantity plan prevents increases in manufacturing milk from creating a wide difference between the wholesale buying price for liquid milk and the pool price payable on basic quantities.

Collection of contributions.—The collection of producer-retailers' contributions has created a special administrative problem for the Boards which does not arise in the case of contract sales through the Boards. The Boards have no third-party check on sales by producer-retailers, nor, of course, do the receipts from such sales pass through the Boards. Consequently the Boards have to rely on the good faith of producer-retailers, not only for paying their contributions, but also for keeping and submitting the records on which these contributions are based. We have been informed that, as a result, there has been a good deal of evasion, the high contributions having added to the difficulties of procuring accurate returns and collecting contributions from producer-retailers.

Much of the difficulty of collection is undoubtedly due to the resentment of producer-retailers against charges which they consider to be unreasonably heavy, though the wide variations in the levy from month to month have also caused dissatisfaction. In Scotland the position has been ameliorated by the Secretary of State's Order; and if the amendments proposed by the English Board are brought into effect, the causes of dissatisfaction in England will be largely removed. But there will still remain the psychological difference between the payment of contributions by producer-retailers and by other producers, in that the producer-retailer has to pay cash to the Board, while other producers pay by deduction from the Board's payment to them. We believe that a contributory cause of the dissatisfaction among producer-retailers is the feeling that their interests have not been given full weight by the Boards. This may be due in part to the fact that no special arrangements have been made in the schemes for the representation on the Boards of producer-retailers as such. This question is dealt with among those relating to administration in Chapter 27.

(iii) The Claim for Lower Contributions.

The general principle to which the promoters of the schemes intended to give effect is that, because the stability given to liquid milk prices is advantageous to all producers, all should contribute towards the cost of maintaining that stability. Without the schemes the milk now used in manufacture would tend to undermine liquid milk prices all over the country. It might be that some districts and some classes of producers would be affected more slowly than others; but it could not be long before the consequences of price-cutting overtook them all.

At present the interests of producer-retailers are tightly safeguarded by the fixation of minimum retail prices. Even without this provision, however, the fact that milk cannot be sold to distributors at less than a prescribed price would generally be sufficient to "put a bottom" to retail prices. Thus, from the point of view of price, producer-retailers as a body are at least as well served by the schemes as any other producers. But it does not follow that the contributions to be required from producer-retailers should be at the same rate as those required from other producers, for there may be other advantages of the schemes in which all classes of producers do not share equally.

There are several grounds on which producer-retailers base their claim for more favourable consideration. If they sell milk only by retail they are obliged to maintain level production, with its additional costs, or to carry their own surplus. In fact, they must give a service that is even more onerous than level delivery, for, by the various means available, they must meet exactly the day-to-day requirements of their customers. They also bear their own bad debts, whereas those of producers for the wholesale market are borne by the Board out of the levies made upon all producers,

including producer-retailers. In so far as they sell by retail, they put the Board to no trouble or expense in respect of marketing services.

From a more general point of view, producer-retailers submit that the contributions required from them are used almost entirely for the purpose of making up the difference between the pool price and the actual receipts from the sale of manufacturing milk. Like other producers whose interest was formerly in the liquid milk market alone, they maintain that the subsidisation of manufacturing milk is not a matter that should concern them in any considerable degree. They claim that the danger to them from cheap manufacturing milk was always more remote than the danger to the producers supplying the wholesale market : in some cases, such as those of producer-retailers selling small quantities in scattered areas, it was almost negligible. Moreover, they contend that, in their capacity of producer-retailers, they supply only the liquid milk market; that there has been no increase* in the quantity of milk sold by them by retail, which would displace other milk previously going into the liquid market and force it into manufacture; and consequently that they are not responsible for any part of the increase in the volume of manufacturing milk. If they sell part of their output on wholesale contract, they make their contribution in respect of that milk in the same way as every other producer for the wholesale market.

On the other hand it has been suggested to us that producer-retailers in England and Wales are favourably treated in the matter of the level delivery premium. If they hold no wholesale contracts other than level delivery contracts, they are at present entitled to deduct the level delivery premium from the contributions they pay to the Board in respect of their retail sales. Other producers are entitled to level delivery premiums only if they are able to secure level delivery contracts with their buyers; and in that case the premiums are payable by the buyers and do not come out of the pool fund.

It has been urged also that producer-retailers frequently have lower distributive costs than their trade competitors, and thus that their business is unduly profitable. But this is a matter which concerns producer-retailers as distributors, not as producers.

(iv) The Main Principles Involved.

The claim of producer-retailers for more favourable treatment may be considered as falling into two parts, namely :—

(*a*) that the Boards provide certain services for producers for the wholesale market which are not used by producer-retailers and should not be paid for by them ; and

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* There has been an apparent increase in England and Wales, but on the assumption that the 20,000 additional producer-retailers included in the second year retailed an average of two quarts daily, their inclusion more than accounts for the higher total.

(*b*) that in so far as they are producers for the liquid milk market only, they should not be called upon to contribute much, if anything, towards subsidising manufacturing milk.

As regards the first of these contentions, it is obviously just that producer-retailers should be relieved of the cost of any services from which they do not benefit. But since the total cost of administration, including provision for bad debts, amounts both in England and Wales and in the main area of Scotland only to a fraction of a $\frac{1}{4}$d. per gallon, the appropriate amount of relief must be very small. Even in England and Wales, where the contributions of producer-retailers are highest, they are already somewhat smaller than those of other producers, and the amount of the difference is more than sufficient to offset that between the costs of the Board's services to the two classes.

We have already discussed in the preceding section the grounds on which the second of these contentions is based. The importance of the matter to producer-retailers is accentuated by the fact that the proportion of manufacturing milk to liquid milk has been steadily increasing under the two larger schemes since they came into operation and that, under present conditions, it may increase still further. Producer-retailers have naturally viewed with apprehension the possibility that their contributions, already high, would rise even higher if the volume of manufacturing milk continued to increase, more especially as they, in their capacity as producer-retailers, would not be responsible for the increase.

This is, we apprehend, the essence of the case, in so far as producer-retailers are concerned, which has been met in the amendments made to the main Scottish scheme by the Secretary of State for Scotland and which the proposed amendments to the English scheme are intended to meet. It should be noted, however, that the alterations made by the Secretary of State are part of a plan to mitigate the effects of the scheme on all level producers who had normally supplied the liquid milk market before the scheme came into operation; they were not directed solely to the improvement of the position of producer-retailers. We understand, moreover, that these alterations were expressly intended as temporary expedients and were not designed to settle the principles involved in the problem of the treatment of different classes of producers.

It is important to observe that the second and more important of the contentions put forward by producer-retailers is substantially the same as that of all producers who were engaged in producing solely for the liquid milk market before the schemes came into force. The general implications are discussed elsewhere; but producer-retailers are able to make the additional point that, whatever protection has been afforded by the schemes to the liquid milk market generally, it is not so valuable to them as to other producers. Allowance should be made for this factor in assessing the contributions which producer-retailers should pay, but apart from

this we see no reason in equity for differentiating, in the matter of contributions towards equalising producers' returns, between producer-retailers and those other producers who were previously selling only to the liquid milk market. The English Board's proposals for reducing the contributions of producer-retailers will undoubtedly lessen the burden for them, but, under present arrangements, only at the cost of increasing the burden on other producers.

(v) Factors in the Assessment of Contributions.

In the previous section we have reviewed the principles governing the general level of producer-retailers' contributions. In this section we consider certain particular aspects of the assessment of producer-retailer levies.

The basis of assessment.—There is some difference of opinion in the industry as to whether the assessment of producer-retailers on a gallonage basis or on a per cow basis is the more satisfactory method. Both are subject to the disadvantage that producers must be left to make their own returns, though a supervisory check on the number of cows is probably easier to carry out than a check on the gallonage sold from day to day. It is claimed that, as between producers, the cow basis is not equitable, in that some producers would have to contribute in respect of cows whose milk is in part manufactured or used on the farm, or consumed in the farm household. On the other hand, the cow basis has the advantage that, other things being equal, it would afford some encouragement to more efficient production on account of its lighter incidence on high yielding herds. But there is no special reason why the contributions of producer-retailers should be assessed so as to encourage heavy yields if those of other producers are not so assessed.

Quality premiums.—It is of course no less important to encourage quality improvement among producer-retailers than among other producers; and it is desirable therefore, in principle, that they should be entitled to the same quality premiums as wholesale producers. Under present arrangements they can, in England, obtain the Accredited bonus on the same terms as other producers; or, if they retail milk of higher grade, they are at present exempt from the scheme. Under all the Scottish schemes higher prices are fixed for Certified and Grade " A " (T.T.) milk which, in effect, furnish premiums to producers who retail milk of these grades.

Level delivery premiums.—The application to producer-retailers of the principle of level delivery premiums raises two main questions: first, that of the equitable treatment of each of the different classes into which producer-retailers may be sub-divided; and secondly, that of the equitable treatment of producer-retailers as compared with other producers and other distributors.

From the point of view of the level delivery services which they give, producer-retailers fall into three classes, namely:—

(*a*) those who sell only by retail and dispose of any surpluses otherwise than by sale;

(*b*) those who sell also on wholesale contracts, but only on level delivery terms, and who dispose of any surpluses otherwise than by sale ; and

(*c*) those who sell part of their output on contracts which do not require level delivery.

In effect, the first and the second of these three classes both give level delivery service in respect of their sales and themselves bear the cost of disposing of their surpluses. But the third class, in so far as they sell their surpluses on open contracts, do their " balancing " through the Board ; for where the Board pays the pool price on milk sold by producer-retailers on open contracts, it is the Board that bears any loss incurred in disposing of those surpluses.

The distinction between the first two classes and the third class has been clearly recognised in the English scheme. Every producer-retailer is entitled, if he chooses, to sell his surplus through the Board and to receive the pool price for it ; but any producer-retailer who sells no milk by wholesale, except on contracts carrying level delivery premiums, is entitled to receive (by way of reduction from his contribution to the Board) an allowance equal to the average level delivery premium prevailing in his district. Under the main Scottish scheme the distinction at present made is between those producer-retailers who sell milk only by retail and those who, on the other hand, also sell by wholesale, whether on level delivery contracts or otherwise. Since the beginning of 1935, under the system of contributions on a " per cow " basis then introduced, the rate of contribution of the first of these two groups (where they adopted the " per cow " basis) has been lower than that of the second. The Aberdeen scheme, which incorporates the " basic quantity " system, provides that any milk sold wholesale by producer-retailers shall be paid for at the " surplus " price. The North of Scotland scheme provides for the extension of the " basic quantity " system to producer-retailers and for the payment made for milk which they sell through the Board to be at the " basic quantity " price or the " surplus " price, according to whether it is included within or is surplus to the producer's basic quantity.

In the case of the two larger schemes the intention has evidently been to give an incentive to producer-retailers to keep their surpluses on the farm. The only difference of principle between them is that the special allowance is made in England to all producer-retailers who do not sell milk on open contracts, while in Scotland it is made only to those producers who sell no milk by wholesale.

We think it is clear that any differentiation made between producer-retailers in the matter of their contributions to the Board should distinguish between groups (*a*) and (*b*) mentioned above, on the one hand, and, on the other, group (*c*), which receives from the Board a service that is not given to either of the first two

classes. In other words, it is equitable that the contributions payable to the Boards in respect of the retail sales of producer-retailers who sell either only by retail, or only by retail and on wholesale contracts carrying level delivery premiums, should be at a lower rate than those payable by producer-retailers who also sell on open contracts.

The second matter for consideration is the position of producer-retailers as compared with that of other producers and distributors. The price which producer-retailers obtain for the milk which they sell by retail is, of course, the retail price; and from the point of view of competing small distributors who have to purchase milk, this may be regarded as containing an element in respect of the cost of balancing supplies. All other small distributors must either buy their actual requirements from a wholesaler, paying him a premium; or buy on open contract and bear the whole cost of balancing out of their distributive margin; or buy on level delivery terms in order to reduce the variations in quantity, in which event both the level delivery premium and the cost of disposing of their reduced surpluses must come out of their margin. In each case the cost of balancing comes out of the retail price. It seems, therefore, that producer-retailers who sell only by retail are already receiving in the retail price the equivalent of a level delivery premium; and consequently that they should not receive from the Board, in the form of a special reduction in their contributions, a second premium in respect of level delivery.

The second group of producer-retailers (i.e. those who sell no milk except either by retail or on a level delivery contract) are in exactly the same position as the first so far as their retail sales are concerned; they obtain the equivalent of a level delivery premium in the retail price. But on their wholesale contracts they have the same claim to level delivery premiums from the buyer as any other producers who are selling on level delivery terms.

In the third case, where producer-retailers who sell partly on an open contract use this outlet as their means of balancing, it can be argued that the Board is bearing at least a part of the cost of giving them level delivery of their retail requirements and that the contributions of these producer-retailers should take account of the fact that payment for this service is included in the distributive margin on their retail sales.

But these comparisons are all between producer-retailers and other small distributors. Certain large distributors (as is shown on page 197) obtain, in effect, level delivery service without making any special payment for it; and in order to put producer-retailers on terms of approximate equality with these, instead of with the small distributors, it would be necessary for a Board to pay the equivalent of a level delivery premium to the first and second group and to allow the third group to continue, without special payment, to receive the advantages they now enjoy under some of the schemes.

In fact, producer-retailers are not, on the average, large distributors, but very small distributors, and the special conditions that make it desirable to allow favourable terms to large buyers do not apply in their case. There are, however, other considerations that are of importance. Producer-retailers provide practically the only means of supplying the needs of rural areas; their milk can be distributed in exceptionally fresh condition; their transport costs are low; and they are frequently in a position to utilise their surpluses on the farm. For these and other reasons it is desirable that they should be encouraged to keep in business; and in fixing the relative levels of the contributions to be made by producer-retailers and other producers, it is necessary to bear in mind these factors in so far as they tend to offset the advantages at present extended to certain producer-retailers in respect of level delivery or the allowance of level delivery premiums.

(vi) General Conclusions.

There are, we think, three broad considerations that should be taken into account in assessing the contributions to be paid by producer-retailers. The first is that, in principle, the protection afforded to the markets and the prices of producer-retailers is similar to that given to other producers who were formerly supplying only the liquid milk market. The main problem of preventing contributions from rising to a high level will be largely solved for both classes if a satisfactory way is found to secure that increases in sales of milk for manufacture shall not widen the gap between the wholesale liquid milk price and the price returned to producers. The second consideration is that, while there must be considerable variation in the amount of advantage gained by individual producer-retailers from the schemes, on the whole they must have gained less than other classes of producers. It is, therefore, reasonable that their contribution should be at a somewhat lower rate than that of other classes. Thirdly, the contributions of those producer-retailers who sell only by retail, or only by retail and on wholesale contracts carrying level delivery premiums, should be at a lower rate than those of producer-retailers who dispose of their surpluses through the Boards. While the amount of the difference due to the second of the above considerations must be a matter of opinion, we think it would be reasonable to assess the maximum contribution of producer-retailers at a rate, regular throughout the year, which would amount over the year to approximately seven-eighths of the rate applicable to other producers; and that the reduction made to those who sell no milk by wholesale except on level delivery contracts should be equal in amount to the normal level delivery premium.

In view of the importance of encouraging improvements in the quality of all milk, it is desirable that, as far as possible, producer-retailers should be brought within any plan for the payment of bonuses in respect of graded milk.

CHAPTER 17.—QUANTITATIVE CONTROL OF PRODUCTION.

(i) The Case for Production Control.

Although the wholesale price of milk for liquid consumption has risen in England and Wales during the period of operation of the schemes, the pool prices paid to producers have not risen correspondingly. In the main Scottish area wholesale prices have remained steady, but there was a slight tendency for producers' returns to decline during the contract year 1934-35. The reason in both cases is that larger quantities of milk have been offered to the Boards and that, as there has been but little increase in the sales of liquid milk, the great bulk of the additional milk has had to be sold at low prices for manufacturing purposes. The resulting situation is of considerable importance, first, to consumers; secondly, to producers generally; and thirdly, to those classes of producers who, in the past, were mainly responsible for supplying the requirements of the liquid milk market.

There is, we think, no doubt that under present conditions the price the consuming public is required to pay for milk for liquid consumption includes a contribution towards subsidising the production of milk for manufacture; and if the volume of manufacturing milk continues to increase, it is natural that producers should endeavour to secure an increase in the price charged for liquid milk in order to maintain producers' pool prices at their present level. It is probable that liquid milk prices could be raised appreciably before there was any noticeable reduction in consumption among the relatively well-to-do classes which consume the most milk. It is quite possible, therefore, that liquid milk prices might be forced up considerably before total returns to producers began to be affected adversely.

Milk producers in general are concerned to prevent the returns from milk production from being forced down to lower levels. The volume of production is, of course, determined in the long run by the level of returns to producers, and the prices paid to producers under the schemes are all capable of adjustment so as to discourage increased sales by producers as a whole or by sections of producers. If wholesale liquid milk prices were reduced, pool prices would fall and increased production would be discouraged. But the contention of a large number of producers, not all of them high-cost producers, is that some other way should be found to control the expansion of production, or at least of sales. They maintain that, so long as some other branches of agriculture remain relatively depressed, there must be a tendency for farmers to turn to the sale of milk, not because it is unduly profitable, but because it is less unremunerative than other branches. They realise the difficulties that would be created by raising liquid milk prices much further. But they see that, if the value of manufacturing milk remains at

the present level, either liquid milk prices must rise or pool prices must fall with every increase in the quantity sold.

Those producers who formerly specialised in supplying the liquid milk market have been used to receiving relatively high prices, but they now receive no more than the pool price common to all. Their case is that the aim of the schemes should be to safeguard the livelihood of all classes of existing producers. They maintain that it is wrong, therefore, that those producers who previously received only the low returns associated with manufacturing milk, and who now receive the pool price, should be allowed to expand their output and thus to bring down the returns to those whose natural outlet is the liquid market.

The case for some special steps to control the output of milk thus rests upon the arguments :—

(*a*) that some action is necessary to prevent *either* still further increases in the price of liquid milk *or* the reduction to an unremunerative level of the average returns for milk ; and

(*b*) that means must be found to prevent increases in total sales from forcing out of business old-established producers for the liquid market.

(ii) Quantitative Regulation of Sales.

There is no power under the Agricultural Marketing Acts to exercise direct control over the volume of production, but Section 10 of the Act of 1933 enables a scheme to provide " for the determination from time to time of the quantity of the regulated product or of any description thereof which may be sold by any registered producer ". Only one of the milk marketing schemes in Great Britain—the North of Scotland scheme—gives this power to the Board, and in that case no attempt has yet been made to use it.

The quantitative regulation of sales of milk would affect different classes of producers in varying degrees. Those who were able to use their surpluses on the farm, either in manufacture or otherwise, would be affected mainly by the difference in the values of the milk so used and that sold in liquid form. If the effect were to raise pool prices, they might be able to maintain, or even to increase, their total returns. To those who must sell practically the whole of their milk in liquid form the limitation of sales would amount, in effect, to a limitation of production. In most cases the quantitative regulation of sales would probably restrict production effectively ; but it would be difficult to secure equity in the allocation and adjustment of quantities, and the restriction exercised would thus tend to be arbitrary as between individual producers. That, however, is not in itself a decisive argument against the quantitative regulation of sales or any of its alternatives, because it is impossible, under any system of marketing, altogether to avoid anomalies between individuals.

We have not thought it desirable to discuss any of the obvious difficulties at length at this point, though many of the considerations we mention later in relation to the individual " basic quota " plan would be equally applicable to this case. It seems unnecessary to take account of them here, partly because we feel satisfied that in any event the system of regulating sales quantitatively would not be acceptable to milk producers generally, but mainly because of the impossibility of administering it, at least throughout the areas of the larger schemes. It is clear that such a system would give rise to endless friction and could not operate for any length of time unless control were complete and uniform. But there could be no practical possibility of exercising a satisfactory measure of control over, more especially, the large and important class of producer-retailers.

(iii) Qualitative Regulation of Sales.

Production might be restricted less directly by fixing a standard of quality for milk sold into the liquid milk market at a sufficiently high level to ensure that only the volume of milk actually required in that market would reach the standard. All other milk would then have to be sold for manufacturing purposes at the appropriate price. The standard of quality would no doubt have to be subject to adjustment at frequent intervals if liquid milk sales were to be kept within the desired limits, because under present conditions there would be a strong price incentive for producers to qualify to supply the liquid milk market. But even so, it is doubtful whether the system could be made flexible enough to afford real quantitative control.

Another somewhat similar method that might be used (though apparently not under the powers at present exercisable by producers' Boards under the Agricultural Marketing Acts) would be to reduce the number of milch cows, as has already been done in some other countries. If this plan were to be adopted, the best course would obviously be to arrange that tuberculous cattle were destroyed, so as to serve, at the same time, the additional purpose of cleaning up the dairy herds. It would be necessary to pay compensation to the owners, and the cost would clearly be heavy. It would also be necessary, if the object of controlling production were to be secured, to make sure that any reduction in herds secured in this way was not cancelled by increases elsewhere.

Either of these two methods could probably be employed to protect the average level of returns for milk supplied to the liquid milk market, though in the second alternative the protection would be secured at a substantial cost either to producers or to the State. Moreover, a system of control through quality would not meet the claims of those who seek to preserve the relative shares of individuals in the industry and thus to prevent increases in production on the part of some producers from affecting returns to others.

(iv) The Individual " Basic Quota " Plan.

The system of control that is most commonly advocated is that of individual basic quantities, or quotas, the principle of which has already been adopted in the Aberdeen and the North of Scotland schemes. This plan does not, in fact, set any quantitative limit to the amount of milk that may be produced, but operates through a system of differential prices. In the simplest form, each producer is allotted a basic quota of milk for which he receives a price related to the wholesale price obtained for liquid milk; and for any milk in excess of his quota he is paid the price realised for manufacturing milk. If under this system a producer sells more than his quota, the result is to lower the average price he receives for his total sales, without seriously affecting the price received by other producers within the region or the area of the scheme.

If the basic quota system were adopted, the first task of the Boards would be to allocate a quota to every producer in their areas. Since one of the objects would be to prevent a particular form of alleged injustice to individuals (namely, that increased production on the part of one may reduce the average price received by others) equity in this allocation would be essential. It would, however, be impossible to consider each of many thousands of cases on its own individual merits. Some principles would need to be formulated which would be capable of general application. The most obvious course would be to allocate quotas according to the quantities of milk sold by individual producers during some past period, such as the first or a subsequent year of the scheme or a part of one of those years.

It would be a matter of great importance to decide whether the quotas should be based on the year's sales (sub-divided, perhaps, into monthly quotas) or on the sales during part of the year only. Quotas based on annual sales would be designed to stabilise total output rather than to modify existing seasonality of production. Quotas based on winter sales (as under the Aberdeen and North of Scotland schemes), on the other hand, would tend to discourage seasonal variations in production and might, if the difference between the prices of " quota " milk and " non-quota " milk were large, discourage them severely.

It is not a necessary part of the plan that the price paid for " quota " milk should be as high as the price received for liquid milk or that the price of " non-quota " milk should be kept down to the level of the price received for manufacturing milk. But if " non-quota " milk were paid for at a price in excess of the value which it brings to the pool, increases in individual producers' sales would continue to have some modified effect on the returns to other producers. The full liquid milk price could be paid for all " quota " milk only if the sum total of basic quotas were not allowed to exceed the volume of milk consumed in liquid form, or if this " primary " pool fund received a contribution from the " secondary " pool or from some other source. If, on the other

hand, a basic quota plan came to be operated and the quota of each individual were approximately equal to his present output, the sum total of quotas would be considerably higher than the volume of milk required in the liquid milk market, so that the pool price of the primary pool would be much lower than the wholesale price of liquid milk.

Nor is it necessary that basic quotas should be fixed for all time. It would be possible, for example, to revise quotas annually, increasing to some extent those of producers whose output had increased and reducing those of producers whose output had diminished. The amount of the increase or decrease in a producer's quota would not need to be the same as the increase or decrease in his output, but might be proportionate to it. The restrictive effects, therefore, of the quotas fixed for any particular year might be continued in whatever degree was thought necessary in succeeding years, even though the quotas themselves were made subject to annual adjustment.

If, however, the quotas of individual producers were made subject to adjustment from time to time and the prices payable for basic quotas and for surpluses, respectively, were left to the determination of the Board, the effectiveness of the plan would depend upon the decisions of the Board in relation to these two factors. If, for example, quotas were increased relatively little where the output of producers had increased since the last allocation, and the price paid for " quota " milk were much higher than that paid for " non-quota " milk, the discouragement of any increase in production would be strong. If, on the other hand, each producer's quota were adjusted annually so as to include, say, one-half or three-quarters of any increase in his production above his previous year's quota, and if the difference between the prices paid for " quota " and " non-quota " milk were small, then there would be relatively little discouragement of expansion. Some elasticity could be given to a quota plan by making arrangements for the buying and selling of quotas, though much would depend on the terms and conditions on which quotas might pass.

It will be seen, therefore, that if a basic quota plan provided for adjustment from time to time, and the method of adjustment was not set out in the scheme but was left to the Boards, its effects would in practice depend upon the opinion of the majority of the members of a Board as to whether production should or should not be allowed to increase in those parts of the country where it can be undertaken most economically. The situation would be very similar to that which has already arisen under the English scheme in operating the system of regional price pools coupled with inter-regional compensation. In that case, as we have seen, it has been found necessary in practice to depart from the principles involved and to fix upon a compromise, because of the conflicting interests of certain regions. In this case, similarly, it seems inevitable that there would be a continuous antagonism

of interest between those producers who were anxious to expand production at the current level of returns and those who wished to restrain production in order to maintain or increase their returns per gallon.

There are many factors, apart from the schemes themselves, that have influenced, and must continue to influence, changes in the volume of production both of areas and of individual producers within those areas. Before any of the schemes came into operation milk producers near the principal centres of consumption had special advantages which were, however, diminishing in consequence of improvements in methods of processing and in transport. Because of these improvements it was becoming easier for long-distance milk to compete in the main liquid markets. It would be difficult to assess the effects of such influences as these over the liquid milk market as a whole, because they must obviously have varied from place to place. The one thing that is certain is that the developments which have been taking place in recent years, and which are continuing, would by themselves have caused changes in the location of production.

It is necessary to have regard also to the wide variations in the conditions of production on individual farms, including variations in the initiative, skill and capacity for management of individual producers. In the ordinary course of events there must at all times be some producers who are tending to increase their output, and others who are being forced out of business.

The schemes are undoubtedly tending to change the relative proportions of the total supplies received from different areas. But if any endeavour were to be made to modify this effect of the schemes, it would be necessary to consider how far that action should neutralise also the effects of various other forces, including improvements in transport, processing and individual efficiency. It seems to us that it is virtually impossible in most cases to separate the effects of the schemes from those of other factors that have been operating simultaneously.

It would, moreover, be unfair not to take into consideration the differing circumstances of different classes of producers. If, for example, basic quotas were allotted by reference to the sales of individual producers during the first year of the schemes, one result would be that all those producers who had, in the normal course, increased their output since the end of the first year would, in future, suffer substantial financial loss. These producers had no reason to expect to be penalised, yet serious hardship would be inflicted upon them. Another class who would suffer are those producers who, when the schemes first came into operation, did not begin at once to sell the whole of their output of milk to or through the Board, but continued for a time to make cream, butter, or cheese on the farm. These producers would be worse off than those who began at once to dispose of the whole of their output through the Board, while the latter would reap a continuing

advantage. Whatever period in the past were taken as the basis of allocation, it would be impossible to prevent injustices of this kind.

In bringing the basic quota system into operation in the Aberdeen and North of Scotland areas certain of these obstacles proved less important than they would in England and Wales or in the main Scottish area, not only because the numbers of producers are so much smaller, but also because production is, and always has been, almost entirely for the liquid milk market, and there is little likelihood of any considerable expansion of production. Some of the other problems that would have to be faced in the two larger scheme areas did not present themselves at all, because basic quotas were adopted under the two smaller schemes from the beginning, and the system had, in fact, been operating in the Aberdeen area for some years before the introduction of the statutory scheme.

If the basic quota plan were to be adopted in England and Wales and in the main area of Scotland, however, the Boards would be confronted with the following problem. On the one hand, if quotas were allocated according to the current sales of producers, the plan would do nothing to improve the present level of pool prices, though it might prevent their further deterioration. On the other hand, if basic quotas were allocated by reference to quantities sold during some previous period, it would be hard to achieve equity, and harder still to persuade those producers who were adversely affected that the distribution of quotas was fair and reasonable.

But apart from the difficulties that would have to be faced in introducing and operating an individual basic quota plan in the areas of the two larger schemes, we are not satisfied that the principles underlying the plan are justifiable. A system of individual basic quotas designed to effect the quantitative control of production would not only protect the whole class of producers requiring a high price against the class able to sell at a lower price, but could be used, to whatever extent the Boards thought fit, to insulate each individual producer against the fair competition of all other similarly-placed producers. In so far as the system succeeded in preventing increases in production on the part of individual producers from adversely affecting the returns of others, its effect would be to guarantee relatively high prices for specified quantities to all those now in the industry, however inefficient they might be. At the same time it would impede the expansion of production on the part of progressive units in the industry. Any producer who chose to keep his output down to the level of his basic quota would, it is assumed, be assured of relatively satisfactory levels of returns ; but those wishing to expand might only be able to do so at a loss, at least during the first few years. Apart from the fact that the average farm price of milk would be held artificially at an unnecessarily high level, it could not, in our view, be a good thing for the industry or for

the nation that prescriptive rights in a remunerative market should be given to any group of producers, irrespective of their efficiency.

It should, perhaps, be explicitly stated that these views are intended to relate to the particular case of milk. We are aware that quota systems of various kinds have been applied in many industries, both in this country and abroad. In Great Britain individual quota systems are already operating, under statutory schemes, in the coal and in the hop-growing industries. Under the Potato Marketing Scheme provision is made for a " basic acreage " system, which may be regarded as comparable in some respects with individual basic quotas, though basic acreages may be increased at will by producers on payment of a prescribed sum, and production is not entirely dependent on the acreage planted. Without expressing any views as to the desirability of quota systems, either as a temporary expedient or as a permanent feature, in other branches of agriculture or in other industries, we do not believe that an individual quota system could usefully be applied to the milk industry in this country. Apart from the reasons already stated, we suggest that there are three further considerations which make quotas undesirable in this case. The first is that, under a system of organised marketing and pooled prices in the dairying industry, there is no practical possibility of violent fluctuations in returns to producers or in the volume of supplies in relation to demand, such as tend to occur in certain other industries. The second is that a basic quota plan designed to discourage any expansion of production seems to pre-suppose that the demand for liquid milk is more or less fixed, so that increasing production must bring with it progressively lower pool prices, and this is a view which we cannot accept as necessarily true before intensive efforts have been made to expand consumption. The third reason, which is closely linked with the second, is that home producers generally, and some of them more especially, have natural advantages in milk production and could expand their output under more favourable cost conditions than exist in most alternative branches of farming; but an individual quota system would tend to prevent this expansion and so to limit the freedom of efficient producers in suitably balancing their farm economy.

(v) Regional " Basic Quotas ".

Appreciation of the difficulties associated with the individual quota plan has given rise to suggestions for a quota plan based not upon individuals but upon regions. The general idea of proposals on these lines, which were made to us originally by Mr. J. Lewis Walton, a former Vice-Chairman of the English Milk Marketing Board, is that each region in England (and the system could be applied in Scotland on similar lines) should be allotted a specified share of the total liquid milk requirements, and that the regional pool should be credited with the liquid milk price in respect of this share. All milk over and above the liquid milk quota would

be credited to the regional account at the average price realised for manufacturing milk. The total income of the regional pool from the appropriate proportion of liquid milk and the balance of manufacturing milk, together with the levies from producer-retailers in the region, would be divided among producers within the region at a flat rate per gallon.

In determining the liquid milk quota of each region the Board would ascertain what percentage of the total liquid milk requirements had been supplied by each region during some past period (such as the first year of the scheme) and would apply that percentage to the current year's sales of milk for liquid consumption. If, for example, a particular region had supplied 15 per cent. of all the milk sold for liquid consumption during the base period, then under the regional quota system in its simplest form the quota for that region would be, in any subsequent year, 15 per cent. of that year's requirements.

As with the individual quota plan, however, it would not be a necessary part of the system that the percentage of total liquid milk sales allocated to each region should be fixed permanently. The figures might be made subject to adjustment from time to time, so that whatever measure of encouragement was thought desirable could be given to expansion in the lower-cost regions. But if decisions on this matter were not determined by the scheme but fell to the Boards, the same kind of difficulties would arise in attempting to satisfy conflicting interests as those we have mentioned in relation to individual quotas.

The chief difference between the regional quota system and the present pooling plan operating in England is that the income of a regional pool, and thus the pool price, would not be affected by the current volume of milk sold from that region into the liquid market. The system would thus overcome certain of the difficulties of the present pooling plan. The pool price need no longer be affected by such circumstances as the setting up of liquid milk depots or factories within a region; and the Board would be better able to change the direction of supplies in order to save transport costs. The returns of all producers within any given region would, however, still be affected by increases or decreases in the sales of all other producers within that region. The plan is, therefore, designed to prevent or to control changes in the relative volumes of supplies from the different regions, but not from individual producers within the region. It would, therefore, be much simpler to operate and decidedly less objectionable in principle than the individual quota system.

(vi) A Modification of Regional Quotas.

We think, indeed, that the regional quota plan contains the germ of a satisfactory solution of the problem of safeguarding the level of returns to producers, while influencing the location of milk production as may be considered desirable in the national

interest. It would not, however, be necessary to work exactly on the lines that we have described.

The regional quota plan recognises that the level of the pool price is the main factor in determining whether production in the region shall expand or contract and thus in determining the output of the region. At present the relationship between regional pool prices in England and Wales depends partly on the proportions of liquid and manufacturing milk sold in the several regions and partly on the application of inter-regional compensation. If, however, the prices payable to producers in each of the regions were by any means fixed at such levels as would maintain the present relationship between the output of regions (or whatever adjustment of the present relationship is thought desirable) any danger that expanding sales in some areas might ruin prices for producers in other areas would be avoided. If, moreover, the general level of regional prices were fixed so as to secure, as nearly as possible, only the total output of milk that was desired, the danger that a general increase in production would cause consumers' prices to rise still further would similarly be avoided. Finally, if the relationship between regional prices were subject to periodic review and adjustment, it would be possible to stimulate, at a suitable rate, any changes in methods or localities of production that seemed to be in the general interest.

CHAPTER 18.—IMPORT POLICY AND PRODUCERS' RETURNS.

There are practically no imports of liquid milk into the United Kingdom, and consequently it would be impossible to affect the returns to milk producers in this country through any import policy directed to liquid milk. It is often suggested, however, that the position of milk producers in the United Kingdom might be improved through the operation of a suitable import policy for milk products. The suggestion is that the policy might be designed either to expand the manufacturing market for home-produced milk at current prices; or to raise the price of home-manufactured products, and thus the value of manufacturing milk; or both to increase the quantity and to raise the value of milk used in home manufacture.

The forms of import policy that are commonly advocated for these purposes are either:—

(*a*) quantitative regulation applied so as to reduce the volume of imports;

(*b*) increased import duties on milk products; or

(*c*) the levy-subsidy system, under which a fund, secured from levies on imports of milk products, would be made available for the assistance of the home industry.

Before considering the possibilities of each of these forms of import policy, it will be desirable to give a broad indication of the importance of imported milk products in relation to the total supplies of the United Kingdom and short particulars of the import measures that are already in operation.

(i) Imports of Milk Products.

The greater part of the total supply of certain milk products is manufactured at home, but by far the greater proportion of others is imported; and the latter include butter and cheese, which, in quantity and value, are much the most important. The relationship of the volume of home production to imports from Empire and foreign sources is shown for each of the principal milk products in the following Tables :—

TABLE 25.—Home Consumption of Milk Products: Percentages* Produced in the United Kingdom and Imported in 1935.

Source of supply.	Butter.	Cheese.	Cream.	Condensed whole milk.	Milk powder (full cream).
	per cent.	per cent.	per cent.	per cent.	per cent.
Home products ...	9	30	92	84	97
Imports from Empire countries	51	62	5	6	3
Imports from foreign countries	40	8	3	10	—
Total	100	100	100	100	100

* The figures for home production in this Table are based on estimates of total home production, including that of Northern Ireland, less exports of home produce; the figures for imports relate to total imports less re-exports. Fuller details of imports are given in Table 55 on p. 346.

TABLE 26.—Relative Importance of Home-produced Milk and Milk Products and of the Principal Imported Milk Products in the United Kingdom in 1935, expressed as Milk Equivalent.†

	Milk equivalent (million gallons).	Percentage of total.
Imported butter	2,504	59·3
Imported cheese	301	7·1
Imported condensed whole milk and full-cream milk powder	11	0·3
Imported cream	8	0·2
Home supplies—liquid‡...	859	20·4
Home supplies — manufactured, all products	538	12·7
Total	4,221	100·0

† The expression "milk equivalent" is used here as meaning the gross quantity of whole milk required to produce the various commodities; but with some of them there are valuable residues from manufacture, which may be used in the production of other commodities.

‡ Including an estimated allowance for milk not sold through any of the Boards.

These Tables demonstrate the predominant position of butter imports, both in relation to total supplies on the home market and to other imports. It will be seen that 90 per cent. of the butter consumed in this country is imported and that, in terms of milk equivalent, imported butter constitutes some 60 per cent. of the total United Kingdom consumption of milk and milk products. Similarly, imported cheese forms a high proportion of the quantity of cheese consumed, but the consumption is much smaller than that of butter. Together butter and cheese represent over 99 per cent. of the milk equivalent of total net imports.

Existing import duties.—Imports of milk products from foreign countries and from the Irish Free State are subject to duties under the Import Duties Act, 1932, the Ottawa Agreements Act, 1932, and the Irish Free State (Special Duties) Act, 1932. The rate of duty on foreign butter is 15s. per cwt., and on cheese 15 per cent. *ad valorem*, while butter from the Irish Free State is dutiable at 40 per cent. *ad valorem* and cheese at 10 per cent. *ad valorem*. Duties at various rates are levied on the other, less important, commodities.* Up to the present, apart from the preferential duty on the sugar content of sweetened condensed milk and milk powder, duties have not been levied on Empire supplies other than those coming from the Irish Free State, which are subject to special duties.

Some of the current duties are conventionalised under trade agreements; for example, the agreements concluded with the Dominions at Ottawa in 1932 stipulate that the rate of duty on foreign butter shall be not less than 15s. per cwt., while in several of the agreements with foreign governments it is laid down that the rate shall be not more than 15s. per cwt. During the currency of these agreements, therefore, the Government are not able to vary this duty. The Ottawa Agreements provided for free entry for butter, cheese and other milk products from the Dominions concerned for a period of three years, which has now expired. They further provided that, after the end of the three year period, His Majesty's Government in the United Kingdom should have the right, after notifying the other Governments concerned, to impose duties on Dominion milk products, while maintaining existing preferential margins, or in consultation with the Dominion Governments to bring such products within a system of regulating quantitatively the supplies from all sources.

Existing measures of quantitative regulation.—Quantitative regulation has already been applied by voluntary agreement to imports of certain dairy products, namely, condensed whole and condensed skimmed milk, milk powder and cream. These arrangements were introduced in the early summer of 1933, since when the principal foreign exporting countries have been approached from time to time with proposals for the gradual reduction of exports to the United Kingdom. The percentage reductions proposed for the

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* See Table 56 on page 347.

initial period of regulation* and for the third quarter of 1936, as compared with the corresponding periods of the base year June, 1932, to May, 1933, were as follows :—

Period.	Condensed whole milk.	Condensed skim milk.	Milk powder.	Cream.
June–Sept., 1933 ...	20	20	20	20
July–Sept., 1936 ...	40	40	35	50

The arrangements proposed for imports from the Dominions (other than the Irish Free State) and the less important foreign supplying countries have been based on a "standstill" on the figures for the year June, 1932, to May, 1933.

Imports of cream and condensed milk from the Irish Free State were brought within the scope of the regulation arrangements in January, 1934. The rates of reduction have been generally one-half of those proposed for imports from the principal foreign exporting countries, the base year being the calendar year 1933; but since the beginning of 1936 the allocations for condensed milk have been increased to 100 per cent. of the imports in the base year.

As the following figures show, these regulation arrangements have resulted in a substantial reduction in imports of processed milks :—

TABLE 27.—Comparison of Total Imports into the United Kingdom of Processed Milks in the Base Year† and in 1935.

Product.	Base year.	1935.	Percentage reduction.
	cwt.	cwt.	
Condensed skimmed milk ...	2,148,000	1,405,000	34·6
Condensed whole milk ...	599,000	379,000	36·7
Milk powder	299,000	221,000	26·1
Cream	116,000	75,000	35·3

† For imports from the Irish Free State the base year is the calendar year 1933; for imports from all other sources the base year is June, 1932, to May, 1933.

These measures have, however, had little effect on total imports of milk products as a whole, since the volume of imports of butter and cheese has not been regulated.

Importance of Empire supplies.—It should be noted that 56 per cent. of butter imports, 88 per cent. of cheese imports, and practically the whole of the imports of fresh cream come from Empire countries. The proportion of tinned cream and condensed milk imported from Empire countries is much smaller, but the total of these imports in terms of milk equivalent is itself relatively small. If, therefore, Empire supplies of milk products were to continue to enter this country without restriction, the effect of any measures designed to discourage imports would be greatly reduced.

* For details of regulation from June, 1933, to date see page 348.

(ii) Quantitative Regulation of Imports.

When the quantitative regulation of imports of milk products is advocated as a means of expanding the market for, or raising the price of, home-produced milk used in manufacture, the object is usually either :—

(*a*) that imports of milk products should be reduced in order to make way for an equivalent volume of home-produced milk in the manufacture of those products ; or

(*b*) that imports of those products returning the highest realisation values for the milk used in them should be reduced, so that, for example, home-produced milk now used in the manufacture of cheese would be transferred to the manufacture of cream, thus raising the average returns from manufacturing milk ; or

(*c*) that total supplies either of milk products generally or of certain milk products should be reduced (by so reducing imports as to secure a net reduction in total supplies) in order to raise the prices of those products and thus to raise the realisation value of the milk used in their manufacture.

If the quantitative regulation of imports of milk products is to be of any advantage to home milk producers, it must be through one or more of these effects. It is unlikely that in practice the effects would be confined to any single one of these, but for the purpose of examining their possibilities in improving the position of producers it is easier to consider them separately.

In the first case, if imports of milk products were reduced and the ultimate result (omitting the steps by which it would be reached) was for additional home manufacture to fill the gaps, the effect would be to increase the quantity of home-produced milk used in manufacture. But since the total supplies of all the products would then be the same as before, there would be no consequent effect upon their values and no change, therefore, in the realisation values of the milk used in them. At present *all* manufacturing milk, for whatever purpose it is used, returns a price that is lower than the price paid to producers. Under these conditions it follows that, other things being equal, an increase in the volume of milk sold for manufacture would have the effect of *reducing* the average level of prices payable to producers and would thus be worse than useless for the purpose of improving their returns. The English Board have recognised in a memorandum submitted to us that an increase in home production for manufacture could, in the circumstances described, only have the effect of worsening the position of producers.

The second suggestion is that imports of only those milk products returning the higher realisation values should be reduced, so that as much as possible of the home-produced milk now sold into the lower-priced manufacturing markets might be transferred to a higher-priced manufacturing market with a corresponding

gain to the home producer. The two products returning the highest realisation values are cream and condensed whole milk. But already over 90 per cent. of the cream and over 80 per cent. of the condensed whole milk* consumed in this country is produced at home. If it were practicable to arrange at once for the whole of the remainder to be made in this country from milk that is at present used in the manufacture of cheese, the result so far as producers are concerned (leaving out of account the present Government advances) would only be to raise the average returns from manufacturing milk as a whole by one-sixth of a penny per gallon and thus to raise pool prices by little more than one-twentieth of a penny per gallon. The maximum benefits that could be secured by this means would, therefore, hardly be appreciable.

The third case postulates a reduction in the *total volume* of supplies of some or all milk products. Such a reduction would tend to raise the price level of both the imported and the home-manufactured product to some extent, but it is difficult to say how far supplies would have to be reduced in order to bring about any desired rise in prices. Moreover, it might not be possible to ensure a permanent reduction in supplies merely by reducing imports; with some products, at all events, it would probably be necessary at the same time to control home production if it were desired to maintain a net reduction in supplies and thus a rise in values.

Imported cream and condensed whole milk already form such small proportions of the total supplies of these products that there would be little hope of raising appreciably the prices of these products simply by reducing imported supplies. In any case the total volume of milk used in making cream and condensed milk in the United Kingdom amounts to only one-quarter of all the milk used in manufacture, and consequently a relatively large rise in price would be needed before there was any noticeable effect on the average price of manufacturing milk.

Butter and cheese are the two important milk products of which the major part of the supply is imported. They would accordingly be more likely than cream and condensed milk to lend themselves to the plan of raising prices by regulating supplies. During 1934-35 the Government advances under the Milk Act raised the average price realised for milk used in the manufacture of butter and cheese by about 1·3d. per gallon. If it had been desired to secure an equivalent increase in the returns from these classes of manufacturing milk through the restriction of butter and cheese

* There is, moreover, an export trade in condensed whole milk which, in 1935, was three-quarters as large as the import trade in this commodity. If imports were prohibited, the present volume of imports would seek a market elsewhere, and their competition on the world market might tend to reduce the present exports from the United Kingdom and thus to modify the effects on home production.

imports, it would have been necessary to reduce imports sufficiently to raise wholesale butter prices by 3·3d. per lb. and cheese prices by 1·3d. per lb. (i.e. 1·3d. per gallon for 2½ gallons of milk used in making 1 lb. of butter and for 1 gallon of milk used in making 1 lb. of cheese). A very considerable restriction of imports would probably have been needed to bring about price increases of that order, which would have amounted to some 20 to 30 per cent. of the wholesale cheese and butter prices for that year.

Apart from the other difficulties that might be expected to arise in implementing a programme of heavy reductions in imports, it is clear that measures which resulted in substantial rises in wholesale prices would be a serious matter to consumers. Since only some 10 per cent. of the butter and 30 per cent. of the cheese consumed in the United Kingdom is produced at home, much the greater part of the additional cost to the home consumer represented by these increases in price would find its way into pockets other than those of the home milk producing industry. Moreover, the price increases would cause some transference of demand to competing foodstuffs, and this would tend to offset the effects of reductions in imports. It does not appear, therefore, that the quantitative regulation of imports of butter and cheese would offer a suitable means of improving the position of the home milk producer, both because of the uncertainty of its operation and because of the large cost that would be imposed upon the consumer relative to the price advantage gained by the home producer.

(iii) Increased Import Duties.

It seems to us that, from the point of view of the home milk producer, the probable effects of increases in the import duties on milk products would not differ materially from those which might be expected from the quantitative reduction of imports. Those effects might be even less calculable, however, because some part of any increase in import duties would probably be borne by exporting countries, and to that extent the duties would not directly affect either supplies or prices in the United Kingdom.

The first tendency of an import duty on imported milk products would be to raise to some extent the prices of the imported products affected. This would probably result in a similar rise in the price of home-manufactured products of the same kinds and a corresponding increase in the realisation values of the milk used in their manufacture.

In discussing the possibilities of quantitative regulation we pointed out that an increase in the average price of milk used in the manufacture of butter and cheese during 1934-35 of about 1·3d. per gallon would have been necessary to secure to producers the advantages which they gained through the advances made on this milk under the Milk Act. Some 2½ gallons of milk are needed to make 1 lb. of butter and 1 gallon to make 1 lb. of cheese; consequently in order to obtain through import duties an increase of

1·3d. per gallon in the value of manufacturing milk used in making these products, it would have been necessary to impose additional duties of at least 3·3d. per lb. on all butter and 1·3d. per lb. on all cheese, including supplies from the Dominions. In practice, since exporting countries might bear a part of the duties, they would probably have had to be appreciably higher in order to secure the desired effect.

Whatever the results of increased import duties upon producers' returns, they would tend (like the quantitative restriction of imports) to raise prices to consumers over the whole supply of the products affected, both home-produced and imported. The consumer would be required to pay more for all butter and cheese, although the Exchequer, and thus the taxpayer, would gain to the extent of the yield from the duties.

(iv) The Levy-Subsidy System.

Under the levy-subsidy system a levy would be imposed on imported milk products, and the proceeds would be used to assist the home industry. The levy would have the same effect in raising market prices and reducing imports as an import duty of equal amount. But if the income from the levy (unlike that from import duties, which accrues to the Exchequer) were used directly to subsidise returns to producers, the amount of levy needed to raise those returns by any given amount would be smaller than the amount of import duty needed to achieve the same increase. Since the ratio of imports of milk products to the quantity produced at home is about 5 or 6 to 1, a small levy on imports would provide a relatively large amount of subsidy per gallon of milk used in manufacture in this country.

Some idea of the sum that might be derived from levies on imports can be formed by selecting rates of levy and calculating the resultant revenue on the basis of the import figures for 1935. If, for example, import levies at 1d. per lb. (9s. 4d. per cwt.) on butter and ½d. per lb. (4s. 8d. per cwt.) on cheese had been charged on the quantities imported in that year, the total proceeds would have been about £5 million.

In practice it is to be expected that there would be some rise in price as a result of the levies, which, in turn, would react upon demand, since some consumers would turn from butter to margarine and from cheese to other foodstuffs. But exporting countries are likely to pay part of the levy in order to retain their markets, so that retail prices might not rise to the full extent of the levy. That would lessen the disadvantage from the point of view of consumers; and it would not make any substantial reduction in the possible benefits to home milk producers, most of which would come from the subsidy fund and relatively little from the effect of the levy in raising prices.

Without expressing any opinion as to the suitability of the rates of levy which we have taken for purposes of illustration (and

which, incidentally, do not represent quite the same rate per gallon of milk equivalent for butter and cheese) it would seem that £4 million is a fairly conservative estimate of the sum that could be obtained from levies at these rates, even without having recourse to levies upon the relatively small quantities of other imported milk products. This sum would have been sufficient in 1934-35 to have subsidised the returns from all manufacturing milk in the United Kingdom (i.e. including Northern Ireland) to the extent of some 2d. per gallon, or to have raised the average level of returns from all milk sold in the United Kingdom by about ¾d. per gallon.

(v) General.

It seems clear that neither increased import duties on milk products nor the reduction of imports by means of quotas would provide the home milk industry with the assistance which it desires. These measures could have little effect in raising the average value of manufacturing milk except by raising the values of butter and cheese and thus the prices of these commodities to the consumer. In the first place, however, it would not be practicable to raise these prices by more than a small amount. Secondly, while the consumer would have to pay the higher prices for the whole supply, the home producer would obtain only a relatively small part of the additional sum thus paid, because only a small proportion of the butter and cheese consumed is made from home-produced milk. In brief, the benefit to producers from import duties or import restriction must be extremely limited; and, in any case, the cost to consumers would almost certainly be far greater than any possible advantage to producers.

The levy-subsidy system is open to the criticism that, like the alternative forms of import policy, it may raise the prices of imported milk products to the consumer in the process of securing better returns to the home producer. But it seems to us to be the only one of these three import policies that could in practice be employed without hurting consumers more than it helped the home industry.

CHAPTER 19.—TRANSPORT PROBLEMS.

We have already had occasion, in discussing the effects of the schemes on producers' prices (in Chapter 6), to describe in general terms the systems of transport charges adopted under each of the schemes, and a more detailed explanation of them is given in Appendix III. Under the two main schemes artificial advantages have been created for some producers, while others have suffered. The more important of the anomalies resulting from the transport charge systems are described in the following section.

The chief matters for consideration in connection with transport are first, the ways and means of reducing transport costs as a whole to the lowest possible figure; and secondly, the principles that

should govern the assessment and allocation of transport charges. These questions are discussed in the subsequent sections of this Chapter.

(i) Anomalies of the Systems of Transport Charges.

Direct liquid milk contracts in England and Wales.—In England and Wales, during 1934-35, nearly one-half of the wholesale milk supplies was sold on direct contract for the liquid market.* There are large variations, depending mainly upon chance, in the amounts of the transport charges that have to be borne by producers holding this type of contract. In any district producing more than the local needs, some producers are able to obtain local contracts, and others are obliged (if they can obtain direct liquid milk contracts at all) to send longer distances. Thus, in the same neighbourhood, one producer may be able to sell to a local distributor, with practically no cost for transport, while another, receiving the same pool price, may be obliged to send to London, at a much greater cost, or to sell to a depot, probably incurring a still heavier charge. The difference between the net returns to individual producers receiving the same pool price may amount to as much as 2d. per gallon.

While the prices paid to producers within a region or a scheme area are now uniform, the transport charges on direct liquid milk sold locally are generally appreciably lower than those on milk sold to depots and factories. There is accordingly strong competition between producers to obtain local liquid milk contracts. Many of them have been prepared to allow the buyer to pick up the milk and to agree to a larger charge for transport than is justifiable, because the alternative would probably be to make a depot contract. In other cases producers have been induced to give level delivery or other special services without receiving any premium, rather than lose the contract. A few buyers have thus been able, in effect, to obtain their supplies at delivered prices a little lower than those prescribed by the Board.

Depot and factory milk contracts in England and Wales.—There are many ways in which the system of transport charges on depot and factory milk affects different groups of producers unequally. In certain areas country depots owned by town buyers provide an important outlet for local supplies, and some producers are virtually compelled to send to these depots and to bear the " transit risk " charge even though they would prefer to send direct to the town and thus to escape " transit risk ". It not infrequently happens also that a producer relatively near to London or some other big town, who is obliged to send his milk to a depot, incurs a larger charge than a producer farther out who has been able to obtain a direct liquid milk contract in the town.

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* See Table 31 on page 309.

The Board is required under the terms of the scheme to make transport deductions in respect of milk sold for purposes other than liquid consumption. On all milk manufactured in a depot the deduction is equal to the sum of the " transit risk " charge and the " standard freight charge " of the depot (i.e., the railway rate to the most distant of the markets normally served by it). Consequently producers sending milk to a depot may have to bear heavy transport charges on that part of their milk which is manufactured, simply because some part of the total intake of the depot is sold for liquid consumption at a considerable distance. Further, if one of two neighbouring depots having the same " standard freight charge " has an outlet for a considerable part of its supplies into local liquid milk markets and the other engages mainly in manufacture, the average transport charge on supplies to the first will be lower than on those to the second.

Again, two depots within a few miles of one another, both sending liquid milk to the same destinations, may have differences of as much as $\frac{1}{3}$d. per gallon in their " standard freight charges ", because the railway station serving one of them has the ordinary rate, while that serving the other has a special rate lower than the ordinary rate. The same kind of difference occurs if one of the depots has to send liquid milk longer distances than the other. Such variations in transport charges mean differentiation in the net returns to individual producers even on adjacent farms. It is understood that in some such cases agreement has been reached between neighbouring depots to the effect that the one with the lower railway rate will make up the difference by increasing its collection charge, thus obtaining an extra profit on collection.

The depot system has given rise to another practice which is clearly at variance with producers' interests, though it appears under the conditions created by the scheme to be to the advantage of certain regions. The transport charge levied on milk sent to a depot which supplies the London market, for example, is determined by the cost of transporting that milk in small lots to London. The buyer, however, is able to bulk the milk and to send it to London at a lower rate. There is thus a direct incentive to buyers owning depots in different parts of the country and selling liquid milk to the large consuming centres to draw their liquid supplies from their more distant depots, making a profit on the transport of that milk, and to concentrate manufacture in the depots nearer to those centres. The result is clearly to add unnecessarily to total transport costs and at the same time to afford an additional profit to the depots concerned. Under present conditions this practice is advantageous to producers in the regions immediately concerned, because more of their milk is sold into the liquid milk market, and their pool price is consequently higher than it would otherwise be. But pool prices in other regions must be correspondingly reduced, because more of their milk must go into manufacture. Producers as a whole lose by the amount of the

additional transport cost incurred. The recent Report of the Committee of Investigation for England regarding complaints of the buyers against the prices and terms of the contract prescribed by the Board for 1935-36 mentioned this point. After referring to the Board's evidence that, although other milk was available near at hand, milk might be brought from long distances to London by depot buyers because of the larger profit thus made on transport, the Committee stated (page 35 of their Report) that " Such a transaction is, from the standpoint of the industry as a whole, an abuse of the depot system and one which we can only deprecate. The fact that such abuses may occur, however, is not an argument for the abolition of depots . . . ."

Factory milk must, under the terms of the scheme, also be charged by the Board with a transport deduction. It has been difficult for the Board to find an equitable basis for the " special transport deductions " on factory milk, especially in view of the differences between the " standard freight charges " approved for neighbouring depots which are in competition with factories for supplies. A further difficulty has arisen where milk is used for manufacture in a town and direct transport charges have, therefore, already been paid upon it by producers. There has been at least one case of a town factory where it has been impracticable to assess the deduction on the usual basis because of the large difference that would thus arise between returns to producers supplying that factory and returns to neighbouring producers sending into the same town for the liquid market.

In general, the system of transport deductions on depot and on factory milk requires the individual producer of milk used for manufacture to pay charges which exceed considerably the actual costs of transporting his milk. The system is necessary under present conditions to prevent milk used in manufacture from affording larger net returns to producers than milk sold into the liquid market; and the additional money raised in transport deductions is paid into the regional pools and is thus returned to producers as a whole. Nevertheless this indirect method of adjusting producers' returns has given rise to much suspicion and complaint among producers; and in its operation it has been uneven in its incidence upon buyers and has caused dissatisfaction among them also.

The amendments proposed by the Board, which are described in Appendix III, are designed to make the charges uniform within a region and would thus remove some of the difficulties and reduce others; but they would not, of course, overcome those deeper objections which arise out of the fact that the transport charge system is not solely a system of allocating actual transport costs among those who should pay them, but is also a means of adjusting the net returns to different groups of producers.

Scottish difficulties.—The difficulties in Scotland are less serious. So far as the two smaller scheme areas in the north are concerned,

the situation is, of course, free from most of the complications that are found under the two larger schemes. Nevertheless, under a system of pooled prices to producers and individual responsibility for transport charges, producers supplying distributors in their own immediate localities would be relatively better off than those supplying more distant markets.

Under the main Scottish scheme, the transport charge system originally adopted was designed to secure that, though gross prices to producers were uniform, their net returns should vary according to their distance from the main consuming centres. Three "haulage centres" were specified—Glasgow, Edinburgh and Dundee—and the transport charge borne by a producer was determined by the distance of his farm from the nearest of these three centres. Since then, twelve further centres have been added, but with an entirely different purpose. The intention in prescribing these additional centres was to increase the net returns of producers in the East relatively to those of producers in the West of the scheme area by reducing their average transport charges.

We understand that, in deciding which of the prescribed centres is nearest to a producer's farm, the measurement has been made in a straight line, but that, in computing the amount of the transport charge, distances have been measured by the shortest practicable route; and this seeming inconsistency has given rise to some comment. There has also been some difficulty regarding the allocation of haulage contracts between buyers and independent hauliers, but this does not affect the principle of the system adopted.

We have no reason to doubt that the original system in the main Scottish area was, within limits, effective for its purpose. The main complaint about it seems to have been that it did not create a sufficiently large difference between producers in the East of the area and those in the West. But this, as we have indicated, raises questions other than those of transport and transport charges. It has also been pointed out that both the original and the amended arrangements have resulted in many individual producers, both in the East and in the West, paying more than the actual cost of transporting their milk. That is an inevitable effect of any system of assessed charges, and it is not unreasonable when pool prices are maintained at a uniform level over a wide area. But this effect has been intensified under the main Scottish scheme (as with depot and manufacturing milk under the English scheme) by the fact that the charges have been fixed at rates which bring in more than sufficient to pay the total actual costs of transport. Any system of transport charges that results in a profit introduces a new factor which may affect the relative positions of producers paying those charges.

One important point of difference between the main Scottish and the English schemes is that, under the former, buyers of depot milk are themselves responsible for transport charges on milk after delivery to the depot. In consequence town buyers can obtain their

supplies more cheaply if the milk is consigned direct from farms than if it is assembled in buyers' country depots. This has been the subject of complaint by distributors owning country depots, who have pointed out that they suffer a disadvantage if they use their depots for the purpose for which they were intended, namely, the country assembly of liquid milk supplies.

(ii) The Reduction of Total Transport Costs.

Apart from any influence that the Boards may be able to exercise over the destination of milk, and thus over transport costs as a whole, through their powers under the schemes, each of the Boards is expressly empowered by Section 12 of the Milk Act, 1934, subject to consultation with representatives of wholesale buyers, to determine the places to which milk produced in the scheme area may be sold or consigned. There are thus great potentialities for the reduction of unnecessary transport if means can be found to use this provision without hardship to individual producers or to other interests.

The main Scottish Board has, in fact, been able to re-arrange contracts to some extent and in this way to reduce distances and costs. The English Board has also made some efforts in the same direction, but has found it difficult to carry through any large and important changes because of the disadvantageous effects, under the English systems of regional price pooling and of assessing transport charges, upon some of the individuals and groups of producers concerned. It will be convenient, however, to consider first the possible methods of securing economies in transport generally and then the means of ensuring that the benefits of reduced costs are enjoyed by all producers on an equitable basis.

According to estimates of the English Board, the average transport charge borne by producers (including any expenses of their own) in England and Wales in 1934-35 amounted to 1·83d. per gallon. This sum, however, includes the assessed transport charges made on milk that goes into manufacture. As these deductions revert to the appropriate regional pool, they do not represent any payment by producers as a whole, but are in the nature of an adjustment between them. If allowance is made for these items, the actual cost of transporting all milk (i.e. both liquid and manufacturing) averaged approximately 1·24d. per gallon.

There can be no doubt that this average charge is higher than it need be. We are informed by the Board that, from an examination of the statistics in its possession, there appears to be no town in England and Wales, apart from London, which could not draw the whole of its supplies from within a radius of 50 miles. All but the largest towns could be supplied from within a much shorter radius. Even for the great consuming area of London, the Board is of opinion that it should not be necessary to draw supplies from a greater distance than 100 miles. It is not, of course, contemplated that all the output of the areas immediately surrounding

London and other large towns should be sent into those towns, leaving the smaller towns and villages within those areas to obtain their supplies from a distance. It should, however, be possible to supply the large cities from within a smaller radius than at present, without interfering with local supplies in this way.

The ordinary railway rates (after allowing for the rebate under the provisions of the Local Government Act, 1929) for the carriage of milk are :—

Up to 20 miles	0·64d. per gallon.
20 to 50 miles	0·98d. per gallon.
50 to 75 miles	1·23d. per gallon.
75 to 100 miles	1·32d. per gallon.

Bearing in mind that the great mass of the population is in cities, towns and villages which could draw their supplies from well within the 50 mile radius, it seems clear that the actual cost of transporting milk from the producer's nearest railway station to its destination should not exceed an average of 1d. per gallon and might easily be appreciably less. Even allowing for collection charges, we think that, if all milk were directed to its most suitable market, so that the main consuming centres were supplied as far as possible from their own locality and outlying milk were manufactured near the point of production, it should be practicable to reduce the costs a good deal below the present figure.

Figures supplied by the main Scottish Board show that, for the year 1935, the average of the assessed charges on producers for the transport of milk amounted to 1·11d. per gallon. This sum was more than sufficient to cover the actual transport costs, which averaged 0·84d. per gallon. The Aberdeen Board estimates that the average rate for the transport of milk within the area of the scheme is ¾d. per gallon. Information regarding the cost of transport under the North of Scotland scheme is not available, but it is unlikely to be any higher than an average of ¾d. per gallon. It would appear, therefore, that the average rate throughout Scotland certainly need not exceed 1d. per gallon and might be much less.

We discuss below three methods by which reductions in transport costs might be effected. The first is to give a sufficient incentive to producers to send milk short distances only; the second, to give an inducement to buyers to purchase milk close at hand; and the third, to place upon the Boards the responsibility for controlling the flow of milk supplies in such a way as to ensure that none travelled further than was necessary.

Incentive to producers.—In England and Wales the incentive to sell to the nearest possible buyer has to a large extent been destroyed because of the special arrangements which have had to be made regarding transport charges on manufacturing milk. If, in order to restore this incentive, these special arrangements were abolished and, while prices continued to be pooled, each producer was required to pay his actual transport costs, the present inequities

would be intensified. Producers distant from consuming centres who chanced to be near factories would probably be better off than any others. The charges to be borne by depot suppliers (assuming that they still had to pay the cost of transporting liquid milk to its ultimate destination) would vary far more than they do to-day. Those outlying producers who were able to obtain local liquid milk contracts would secure higher net returns than many producers within a few miles of the large towns. The anxiety of producers to secure local contracts would lead to a continuation of the present practice among some producers of giving special services without charge, thus weakening the market for others.

In the main Scottish area, similarly, the substitution of individual responsibility for transport charges in place of the " zone " system would benefit unfairly some distant and seasonal producers at the expense of near-in and generally more level producers.

It does not appear that under any system of pooled prices a satisfactory solution of the problem of reducing transport costs as a whole will be reached by leaving the initiative with individual producers.

Incentive to buyers.—The second method is to alter the existing conditions so that it became advantageous to the buyer to shorten hauls. This might be done by fixing the buying price of milk at the farm or at the first point of country delivery. The buyer would become responsible for the payment of all transport costs, and it would, therefore, be to his benefit to obtain supplies as near as he could to their ultimate destination. One incidental advantage of such a system would be that it would remove the difficulties which have arisen under the two main schemes in determining and allocating transport charges on liquid milk consigned from depots to consuming centres.

Over the scheme area as a whole the buying price of milk would, of course, have to be reduced by the average cost of transport. This price might still be uniform throughout a region or a scheme area. But if varying transport costs had to be added to a flat buying price, the delivered cost of milk would also vary, being highest on that milk which travelled the longest distance. In consequence it would be necessary, as indeed seems reasonable, that the retail price in the main centres of consumption should be higher than in country districts. But another result would be that those individual distributors in the large towns who were able to obtain the whole of their supplies near at hand would secure a higher margin than those who had to go further afield.

The transference to the buyer of responsibility for transport charges would also have some important effects upon the producing industry. At first sight, the result would appear to be that all producers within either a region or a scheme area would receive the same net returns. In that event production would be encouraged in places distant from the main consuming centres. The tendency for production to expand in outlying areas, concurrently with the

incentive to buyers to seek near-in contracts, might create difficulty in placing some of the distant contracts, while near-in contracts might acquire a premium value. If this premium value were not officially recognised by the Boards, private arrangements would probably be reached in some cases between buyers and producers for the direct payment of an additional sum for near-in milk; for it would pay buyers to give a little extra to near-in producers for their contracts in order to avoid heavy transport costs. If, on the other hand, the Boards recognised the difference in the value of near and distant milk to buyers, they would find it necessary to charge different levels of buying prices, and this would probably involve either a "zone" system of wholesale prices or some form of "auctioning" contracts. Similarly, since the additional sums received for near-in contracts should go to the producers concerned, a method of allocating these sums equitably among producers, possibly on a "zone" basis, would also be required.

On the whole we are disposed to think that a major change of this character would be extremely disturbing to buyers and would raise the same kind of problems for the producers' Boards as they would have to face if they were to undertake more directly the full control of the movement of supplies.

Direct control by the Boards.—The third possibility is for the Boards themselves directly to control the flow of supplies with the object of reducing transport to the minimum. In any case in which a Board was satisfied that milk was travelling an unnecessarily long distance, a nearer market would be found for the producer and arrangements would also be made for the buyer to obtain his supplies from a nearer source. The Boards would not, of course, be able to reconstruct the whole system in a short time, but if they were free to re-arrange contracts they would undoubtedly be able, over a period, to eliminate long distance contracts and to secure that markets were supplied more economically than at present.

Moreover, if the organisation of supply were undertaken by the Boards in this way it would be possible for them to consider large-scale proposals for the re-arrangement of transport itself. We do not suggest that the Boards should themselves undertake the actual transport of milk, but it is not unlikely that very favourable terms could be obtained by contracting with the railway companies or other hauliers for the carriage of either the whole output of a certain area, the traffic along specified routes, or the whole of the traffic to certain towns.

Two considerations of a highly important character would arise out of any such far-reaching proposal as this. The first is that there are a number of existing interests, other than those of producers, which would be affected. The second, which is the subject of discussion in the following section, is that the exercise by the Boards of wide powers of re-arrangement of contracts would render some system of pooling transport costs more obviously necessary.

It will be generally agreed, as regards the first of these, that while private vested interests cannot be allowed to stand permanently in the way of reforms that are urgently needed in the public interest, it is nevertheless essential to ensure that, where wide powers are given, they are used reasonably, and that individual hardship is minimised. For these reasons it is important that the proposals of the Boards should be subject to appeal to, or confirmation by, an independent authority. Further, prospective changes should be notified well in advance to those concerned so that they might have ample opportunity to fit their own arrangements to the new conditions.

We have in mind, in this connection, two particular sets of conditions in which sufficient notice would help to prevent hardship, though there are, no doubt, many others. In the first place, the substitution of large-scale transport contracts for small individual arrangements might withdraw business from numbers of local carriers and might also disturb the business of buyers who at present undertake their own transport. Secondly, there are some large distributive firms, in London more especially, who draw part of their liquid supplies from long distances and manufacture milk products in some of their nearer depots. Where the Boards were unable to approve contracts with distant depots which entailed unnecessarily long journeys, or where it became necessary to disturb the existing business of a milk haulier, adequate notice should be given to the owner of the depot or of the transport undertaking, so that he might have time in which to adapt his business to the changed conditions.

We do not doubt that, if changes were made gradually and with due regard to the convenience of other parties concerned, disturbance and hardship could be mitigated to a very large extent. It would, however, be essential in our view that the general supervision of the process of rationalising transport should be in the hands of an impartial body so constituted as to enjoy the confidence of all interests.

(iii) The Assessment of Charges on Individual Producers.

Before dealing with methods of allocating transport charges among individual producers, it is necessary to consider the principles that should determine differences between net returns on account of the situations of individual producers relative to the markets for milk. It will be convenient for this purpose to examine the pre-scheme position and the changes that have been brought about by the schemes.

Proximity values.—Under the pre-scheme transport arrangements each producer bore the cost of delivery of milk to the buyer, whatever the purpose for which the milk was used. In consequence, if two producers supplying, for example, the same London buyer and receiving the same gross price were situated 20 miles and 200 miles

respectively from London, there would be a difference between their net returns due to, and equal to, the difference between their transport costs.

At that time, however, buying prices were not uniform throughout the present regions or scheme areas. We have already pointed out that, where prices of milk delivered to provincial towns in England were fixed by local agreements, they were commonly lower than London prices by the amount of the transport charge to London. In general, local buying prices tended to become lower as the distance from large consuming centres increased. A distant producer might have a number of alternative outlets, such as sale at the farmhouse door, or to a local depot, or in a neighbouring village or town, or to a large consuming centre farther away. But the delivered prices at which he could sell would vary according to the method of disposal adopted. If he sold locally, the price would be less than the gross price which he would receive by selling to a large consuming centre by approximately the additional cost of transport. Each of these methods of sale tended to return to the distant producer the same net amount.

Similarly, of course, the near-in producer had different methods of disposal open to him, each of which would return to him approximately the same net prices. In consequence, the returns to near-in producers tended to be higher than those to distant producers, whatever method of disposal was adopted ; and the difference was more or less determined by the difference in the cost of transporting the milk to one or other of the main consuming centres. Since London was by far the most important of these and milk could be sent to London from almost any part of Great Britain, London prices doubtless exercised a direct influence over all others. It must be recognised that these were general tendencies only and that in addition there would have been in each area other forces at work which would have affected actual prices.

The gross prices received by producers and the transport costs borne by them, *both* of which differed for different groups of producers, were thus jointly responsible, before the schemes came into force, for the additional net value, or " proximity value ", of near-in milk as compared with distant milk. Nearness to a village or a depot counted for very little if the village or depot was remote from the big consuming centres. Proximity values depended upon nearness to London and the other densely populated areas.

Under all the schemes every producer now receives the same gross price (subject, in the case of the two smaller Scottish schemes, to the " basic quantity " provision) as every other producer within his region or his scheme area. But except in the main Scottish area, one effect of the systems of transport charges adopted is that the outlying producer who is fortunate enough to secure a direct contract with a local distributor obtains an artificial proximity value created by the schemes, not a real proximity value due to the situation of his farm in relation to the main markets for milk.

The main Scottish scheme, in its original form, set out substantially to preserve pre-scheme proximity values by providing that returns to producers should consist of the uniform pool price less a charge for transport which would vary according to their distance from the main markets. Thus the distant producer who was able to sell locally received the same net price as if he sold into the town, just as he would have done in pre-scheme days. The transport charge system was, in fact, used to maintain the balance between the net returns of near and distant producers which would otherwise have been upset by the introduction of uniform pool prices.

In England and Wales the problem was approached in another way. The regional prices paid to producers under the English scheme vary to some extent according to the proportions of liquid milk and manufacturing milk sold in the different regions; but the provision for inter-regional compensation and the system of transport charges also have important effects upon the relative levels of regional pool prices. Normally the proportion of milk sold from any region for liquid consumption depends largely upon the nearness of that region to the main consuming centres and, notwithstanding adjustments due to inter-regional compensation, the near-in regions receive the higher pool prices, while the more outlying regions, where larger proportions of milk have to be sold for manufacture, receive the lower prices; thus proximity to London and other large cities is to some extent reflected in the regional prices themselves. The inter-regional compensation system, however, enables the Board to modify the differences between regional pool prices which would otherwise arise out of differences in the proportions of milk sold for liquid consumption and for manufacture.

The regional pooling system under the English scheme has thus maintained differences between the average levels of returns to producers in different regions which to some extent correspond with differences in the average proximity values of the milk produced in the several regions. But differentiation by regions still gives producers in the most outlying parts of any region the same gross price as those nearest to a big town within that region. As a result, it enables some remote producers—those who are fortunate enough to get a local liquid milk contract—to enjoy net returns larger than those of their neighbours and of many near-in producers. Many individual producers must have lost the advantages of real proximity which they formerly had, and many others have gained advantages entirely fortuitously.

It seems to us essential as a governing principle that transport charges should be allocated among producers in such a way as to secure differentiations in net returns which are related to actual proximity to liquid milk consuming centres. Further, it is undesirable in our view that this issue of transport charges should be confused, as it has been both in England and Wales and in Scotland, with other questions affecting the adjustment of returns to different

groups of producers, which themselves involve separate important points of principle.

Methods of allocating transport charges.—If each Board were to set out systematically to reduce the total transport costs of the milk produced within its scheme area, and for that purpose diverted the milk of individual producers to other destinations, some system of pooling transport charges would be almost essential; for if each producer were left to meet his own charges, many cases of individual hardship would arise. For example, under the arrangements operating in England and Wales, a producer situated 20 miles from a certain town, but two miles from a depot, who has a direct liquid milk market in the town is at present almost certainly better off than if he were supplying the depot. The Board might find it convenient, however, to transfer the town contract to a producer who was even nearer and to transfer the first producer to the depot. There would probably be many such cases in which changes of destination which were in the general interest would involve higher transport costs to individuals. Similarly, there would, of course, be many other cases in which individual costs would be reduced through the intervention of the Board; and it might not be reasonable that the producers primarily affected should reap the whole of the benefit. It seems inevitable, therefore, that if the Boards were to undertake the rationalisation of transport, the charges for transport should be made on some pooled basis. But whether or not the Boards undertook responsibility for reorganising transport, it does not appear that, under a system of pooled prices, individual producers could be treated equitably in the matter of transport costs unless these also are dealt with on some kind of pooling basis.

A flat-rate transport pool.—The simplest form of pooling plan would be that under which a single pool was established for the whole scheme area, each producer contributing to it at a flat rate per gallon. At the beginning of each year the Board would estimate the rate required to meet all costs of transport. There would then be a deduction of that amount from the pool price, in order to arrive at the net price payable to producers. If, as we think is likely, it should ultimately be possible to reduce the average cost of transport considerably, the great majority of producers would gain, though it is true that those at present incurring the lowest transport charges would lose. In any event, however, the effect of a flat charge for transport would be to give those producers in the most outlying districts the same net returns as those close to the consuming centres, notwithstanding the difference in actual transport cost, thus entirely eliminating proximity values and artificially encouraging production in the outlying districts. Although a flat-rate pool would be easy and cheap to administer, it must clearly be ruled out on more important grounds.

Regional transport pools.—A second course would be to operate a number of regional transport pools. Those regions which were able

to dispose of the whole of their output close at hand (whether for liquid consumption or for manufacture) would have relatively low transport charges. Those regions which sent milk longer distances would have rather higher transport charges. Consequently outlying regions sending mainly into local factories might be better off than near-in regions sending into the main centres of consumption. The maintenance of entirely separate and self-contained regional pools would, therefore, not create inter-regional differences which were related to real proximity values (i.e., the additional values due to nearness to the main consuming centres); nor would it distinguish between those producers within any region who were situated close to the large consuming areas and those who were more distant.

A " zoning " system.—A third possibility would be to operate a pooling system for transport charges on the lines originally provided for in the main Scottish scheme and the North of Scotland scheme. Under this plan the Boards would be responsible in the first instance for the payment of all transport charges, and the total sum incurred would have to be recovered from producers. A number of important consuming centres would be selected, and the contribution payable by a producer would depend upon his distance from one or other of these centres, regardless of the actual destination of the milk, or whether it was used for liquid consumption or for manufacture. Thus a producer within, say, 25 miles of Birmingham (assuming that to be one of the centres) would pay a certain transport charge irrespective of whether his milk was, in fact, sent into Birmingham, or sold in a village nearer to the producer, or sent to a local depot or factory, or consigned to London. A further differentiation might be made according to the relative importance of the selected centres. Thus a producer within 25 miles of London would pay the transport charge appropriate to his position, wherever his milk was sold; but because of his more favourable situation, the charge in his case might be less than that of the producer within 25 miles of Birmingham.

It is important to note that a system of this kind would have the effect of restoring, in England and Wales, the same kind of proximity values as existed before the scheme came into operation, but on an assured and a defined basis. Neither a single transport pool, to which all producers contributed at a flat rate per gallon, nor regional transport pools would have that effect; and as we have pointed out, the present methods have destroyed the real proximity values of some producers and created artificial advantages for others. In the main Scottish area the " zoning " system would continue, in principle, the intentions of the promoters of the scheme; and whatever differentiation was needed between the general levels of returns to producers in the East and to those in the West would have to be secured by some direct means, such as the introduction of regional prices. In the two smaller Scottish areas very little milk travels long distances, and producers at present bear their own transport

costs. If, say, those producers within prescribed distances of one or two of the largest towns in northern Scotland were charged a lower rate than others, and all the more distant producers who sold by wholesale were charged at a uniform rate, a reasonable differentiation would be made between the net returns to near and distant producers respectively.

The number of possible systems of graduating charges by zones is almost unlimited. In the selection of centres it would be necessary to be guided by statistics of population; but the sizes of the smallest of the towns to be taken as the centres of the zones must be decided more or less arbitrarily. The radius of the zone, or of each of the zones, surrounding these centres should be dependent to some extent upon the area of supply needed by each, and this, in turn, would depend upon the density of human population and of cow population in the surrounding district. The number of zones, and thus the amount of differentiation between one group of producers and the next, could also be adjusted as desired. A plan which aimed at delicate and detailed differentiation would, however, be hard to understand and to operate.

We believe that, given a system of pooled prices, the most reasonable and equitable method of allocating transport costs among producers is on a zonal basis; and further, that this method could be used to differentiate between producers to whatever extent appeared expedient. But we think that in practice it may be found desirable to sacrifice a certain amount of precision in order to obtain a system that, while giving reasonably fair treatment to all classes of producers, will be clear and simple.

CHAPTER 20.—PRICE-FIXING BY THE PRODUCERS' BOARDS.

A great part of the criticisms which have been directed against the milk marketing schemes by interests other than those of producers relates to the means by which prices are fixed. It is obvious that the methods of fixing buying prices, as well as the prices themselves, are matters of prime importance to all interested parties—to producers of milk, to distributors of milk, to consumers of milk, and to manufacturers of milk products.

As a result of the consideration that was given in 1932 to the problems of organised milk marketing, the Grigg Commission recommended* that the power to fix prices and other contract terms for the sale of milk should be vested in a Joint Milk Council consisting of representatives of a producers' Board, representatives of a Central Dairymen's Board and three independent Appointed Members. They further suggested that, in order to prevent a deadlock, the power of ultimate decision should be entrusted to the Chairman of the Joint Milk Council (who would be one of the Appointed Members) and his two appointed colleagues.

* Economic Series No. 38, page 126.

These recommendations of the earlier Commission were not acted upon. The position with regard to price-fixing under the schemes has been described in Chapter 4, where it has been explained that, in general, the power to prescribe prices has been given, under each of the schemes, to a producers' Board.

The evidence that we have received from a number of sources indicates the dissatisfaction of distributors and manufacturers with the resulting situation. Their representatives have strongly urged that it is indefensible in principle and prejudicial to them in practice that the power to fix prices and contract terms, with all that that power connotes, should reside with any one of the interested parties.

But the complaints have not come from these interests alone. The Co-operative Movement, which claims to speak for consumers as well as for a large section of the distributive and manufacturing trades, has emphasised the danger, from the public point of view, of the sectional control of prices.

It is more significant that some of the organisations representing agricultural interests evidently feel that there would be advantages to producers also if marketing operations, including price-fixing, were under a more independent form of control. Representations have been made to us, for example, by the Royal Agricultural Society of England and by the Sussex County Agricultural Society, in favour of a small nominated Board; and the Central Landowners' Association has suggested a small executive Board of seven, or preferably five, members, of whom the chairman and at least one other should be appointed by an independent body.

Most striking of all, in a written statement of evidence submitted to us by the Scottish Milk Marketing Board a strong case is made out for the appointment of Boards on the nomination of "the Minister" instead of by the vote of registered producers. The memorandum states that "a nominated Board would not be suspected by consumers, distributors and manufacturers to the same extent as happens in the case of a Board elected by producers and composed almost entirely of producers. A nominated Board would be responsible to the Minister and to Parliament, and the necessity of referring almost every complaint to the Consumers' Committee and the Committee of Investigation might in this way be obviated. The Board, as a result of their experience and the experience of other Boards, are of opinion that the Commission should give serious consideration to this most important question".

These representations in favour of independent Boards were not directed specifically and solely to the question of the exercise of price-fixing powers, but it is evident that they have a most important bearing upon it. In these circumstances it is obviously necessary to examine with care the arguments for and against the exercise of those powers by Boards which represent one side of the industry only.

(i) The Statutory Powers of Producers' Boards.

Under the Agricultural Marketing Acts, a marketing scheme may provide, subject to the approval of Parliament, that a producers' Board may fix the price at, below or above which, and the terms on which, the regulated product may be sold by any registered producer. It is pertinent to note, however, that the Acts do not *require* that a scheme shall contain price-fixing powers. The relative provisions are permissive, not mandatory.

It seems to have been envisaged from the beginning that there might be instances in which the powers of a Board might be limited to such matters as the standardisation of produce or of marketing methods, and in which producers would not desire to confer on their Boards the power of price-fixing. It was presumably realised also that there might be cases in which it would not be in the public interest that producers' Boards should exercise all of the powers set out in the enabling Acts, and that the question whether price-fixing powers should be included in a scheme would be one for decision on its merits in each case.

It may be assumed, however, that the legislature intended that, as a general rule and where the circumstances were not exceptional, producers' Boards should be enabled, by virtue of the schemes, to fix the prices at which producers should sell. When the draft schemes for milk marketing were presented, these powers of price-fixing were amongst the features most attractive to producers.

The effect of conferring on the milk marketing Boards in Great Britain the power to fix prices is that each one of them has become virtually a statutory monopoly selling organisation for its own area. The fundamental argument that can be used in favour of the exercise of statutory price-fixing powers by a producers' Board is that every producer of a commodity is entitled to say at what price he will sell his product, and that if, under a marketing scheme, producers agree to relinquish their rights as individuals, it should only be to an organisation controlled by producers.

In support of this argument it has been pointed out to us that, before the marketing schemes came into existence, agricultural producers generally found themselves in an inferior bargaining position in relation to the buyers of their produce and that the primary object of the Agricultural Marketing Acts was to redress the balance. To achieve this object the Acts encouraged producers to combine for marketing purposes, with statutory powers designed to make that combination effective. The important result as regards price determination was not, it is claimed, to give producers any new right which they did not possess before, but only to enable them to use more effectively a right that had always been theirs.

Further, power to fix prices does not involve power to enforce purchase. Even if a prospective purchaser of the regulated product has no direct voice in price fixation, he can refuse to sign a contract embodying prices of which he does not approve. In consequence it is argued that the fixation of prices by producers does not impose any compulsion on purchasers; and the fact that the prices fixed must be acceptable to buyers is the natural safeguard against unduly high price levels.

It is, of course, true that producers have always had the right to decide whether or not they would sell at any given price, but since their organisations were never sufficiently powerful, they were unable in practice to fix and enforce prices. In other words, the individual right and power of milk producers to say at what price they would be willing to sell their produce never amounted to a power to fix prices; it only enabled them to bargain with buyers. It is reasonable to argue that a producers' Board should be as free to enter into negotiations and to arrive at agreements as were either individual producers or combinations of producers before the Boards came into existence, and this in itself must mean that the bargaining strength of producers would be enormously increased.

Under the schemes, however, producers now possess a comprehensive monopoly organisation with statutory powers to fix and to enforce prices. Under these conditions it is no longer true to suggest that the prospective buyer is as free to accept or reject the terms offered to him by the producer as he was before the schemes came into operation. There is the important difference that in pre-scheme days the purchaser who was offered a contract which contained, in his opinion, too high a price or too onerous conditions was in a position to seek a producer who would be willing to sell on terms more favourable to the purchaser. But under the schemes the purchaser who is offered a contract which in his view embodies, for example, too high a price, knows that he cannot obtain a lower price elsewhere. It must be recognised, of course, that purchasers are themselves well organised, and their organisations have probably gathered strength since the schemes came into force; but subject to the right to complain to the Minister, which is discussed later, purchasers are faced with the choice of signing a contract at the price fixed by the appropriate Board, or of using the strike weapon, or of going out of business.

It is clearly vital in the public interest that, where monopoly powers are given by statute, there should be effective safeguards against the possibility that such powers might be misused. These safeguards might take various forms. In some cases adequate protection might be afforded by the nature of the article itself, or by the nature of its market; or it might be secured by the character and constitution of the body responsible for fixing prices; or again it might be obtained by making suitable provision for the

investigation and redress of grievances. We consider each of these possibilities in relation to milk in the subsequent paragraphs.

(ii) The Nature of the Commodity and of its Market.

Liquid milk is regarded as a necessity in almost every household in the land, and there are many who look upon it as one of the first necessities. It is certainly essential to the well-being of children and of other groups of the community. These and all other consumers are dependent on the home supply, for there are practically no imports of liquid milk and there is, therefore, no competition from external sources. The only direct substitutes are dried and condensed milk, but these are used mainly by those classes of consumers who do not at present take liquid milk in any considerable quantity.

These conditions are important : for the result is that the natural safeguards against high prices which are associated with many other foodstuffs are relatively weak in the case of milk. The price-fixing powers of a monopoly controlling the sale of a foodstuff are automatically limited if the foodstuff is not an important article of diet or if substitutes are readily available; and more especially so if consumers' habits alter easily in response to price changes. If a home-produced foodstuff is in competition with imported supplies which can enter the market fairly freely, that competition will itself provide an effective check on prices; and if imports are restricted, it is the State, through its power to control the restrictions, not the monopoly selling organisation at home, that has the last word as to price levels.

With many products the power of the market to absorb the supply is strictly limited, and an increase in the quantity marketed will result in a fall in the price over the whole of the supply. Such, however, is not, under present conditions, the case with milk. There are two markets for milk, and these have been effectively separated under the schemes. The liquid milk market seems to be relatively inelastic. But the potential market for milk for manufacture into butter and cheese is very large (provided that the milk is offered at a suitable price) so that any surplus above the requirements of the liquid milk market that is likely to be available can be absorbed into manufacture without affecting liquid milk prices. Additional supplies to the manufacturing market would no doubt affect the price level for manufacturing milk : but because home-manufactured milk products form only a small proportion of the total supply, any given increase in home production would represent a smaller proportionate increase in the total and would have relatively little effect on the prices of the products and thus on the value of the milk used in them.

Moreover, while the demand for milk on the part of the consuming public is certainly influenced by the price, it is doubtful whether this influence is sufficient to prevent prices from being

raised to an unreasonable level. It is probable that the smaller sales which would follow from somewhat higher prices would yield better financial results to the Boards than current sales at the current price level. The reason is that an increase of 1d. per gallon in the producer's price would represent a large proportionate increase in his profits; but an increase in the retail price of one or two pence per gallon would probably not result in a large decrease in sales.

In the absence of other safeguards, the danger that prices might be raised to the detriment of consumers would thus be very real. If higher prices would reduce consumption more than proportionately, they might bring their own corrective; but even substantially higher prices would probably not reduce consumption sufficiently to be unremunerative to a producers' monopoly. Since these higher prices would give higher returns to producers, they might be expected to lead to an increase in production. The additional supplies would have to be sold at low prices for manufacture, thus reducing producers' returns once more and creating a demand for still higher liquid milk prices. In these circumstances, it is obviously necessary to see what other safeguards are available to consumers and to the trade interests concerned with liquid milk.

The position with regard to manufacturing milk is different in some important respects. The home market for milk products of all descriptions is supplied in part by products of home manufacture and in part by imports. The products manufactured in this country must be sold in competition with those that are imported. It follows that home manufacturers can only continue in business if they can obtain their raw material—milk—at prices which enable them to make their products and sell them, in competition with imported products, at a profit. Broadly speaking, therefore, the prices of manufacturing milk must be determined by factors that are beyond the control of either the manufacturers or the Boards; but in detail they are prescribed by the Boards after consultation with representatives of the manufacturers.

These considerations, coupled with the fact that a large proportion of the principal milk products already comes from abroad and that the volume of imports is capable of expansion, make the question of manufacturing milk prices a matter of much less importance to consumers than that of liquid milk prices. It is nevertheless necessary, in the interest of the large home manufacturing industry, that the prices and conditions fixed should be reasonable.

(iii) The Nature of the Boards exercising Price-Fixing Powers.

It may be argued that consumers, the distributive trade and manufacturers are all protected from any real danger in the matter of prices by the public and responsible character of the Boards themselves; that the personnel of a producers' Board is chosen from

among the best elements in the industry and includes some independent members with wide business experience; that the Boards have competent and experienced staffs to collect and collate all necessary data and to advise them; and that no matter how wide the powers of a Board may be, it could not remain impervious to criticism, nor could it for long ride rough-shod over public opinion. Further, it may be said that the Boards will obtain that knowledge of market conditions which is required for the effective control of prices. The implication is that, in all these circumstances, the Boards can hardly fail to cultivate a broad and statesmanlike outlook which will enable them to carry out, fairly and impartially, that task of planning and administering for the general welfare of the producing industry which Parliament intended should be theirs.

We believe that there is force in this reasoning, and we are fully mindful that in exercising their price-fixing powers the Boards have been faced with an extremely difficult task. Any observations of ours on the subject are, therefore, not intended to reflect on the personnel of producers' Boards, but simply to indicate what appear to us to be the inevitable consequences of the milk schemes in their present form.

An examination of the decisions which the Boards have taken in the matter of price-fixing shows that they are no different from what might have been expected from any body of business men engaged in selling a commodity and naturally intent upon obtaining for that commodity the best possible price. Each member must feel it incumbent upon him to have special regard to the views of those who have elected him to represent them: and it is natural for the electors to consider that the chief aim of their representatives should be to secure the best possible price for producers. It would be unreasonable to expect the representatives of producers to give as much consideration to the interests of the "trade" or to the interests of the consumer, as to their own interests; further, as representatives, they must be tempted to strive after immediate benefits without due regard to the ultimate consequences.

In this assessment of the position we cast no adverse reflection on the Boards; we merely decline to put them on a higher plane than any other body of business men. The simple fact is, in our view, that it is impossible to expect them to fill the dual rôle of advocates and judges.

It is true that there is a leavening on the Boards of independent members. But these members are in the minority: and even if they were not in the minority we think it would be very difficult for them, in spite of their best endeavours, to continue to take a perfectly impartial view on matters where the interests of parties other than producers were concerned. They are members of a producers' Board; they live in what may be called a "producer atmosphere"; and they are not specially charged with the duty of defending the interests of distributors, manufacturers, or consumers.

(iv) The Statutory Safeguards.

We have endeavoured to outline our reasons for thinking :—

(*a*) that in the case of liquid milk there are no natural safeguards such as might, in the case of other commodities, counteract any unreasonable use, by producers, of a monopoly ; and

(*b*) that a purely producers' Board cannot be expected to give due weight to all the interests affected by the determination of prices.

In the circumstances it seems clear that some other form of safeguard is needed. This naturally leads to the consideration of the adequacy and effectiveness of the present statutory safeguards.

Two forms of safeguard are provided in the Agricultural Marketing Acts themselves. In the first place, consumers who are aggrieved by any action of a Board can complain to the appropriate Consumers' Committee, whose function is to investigate the complaint and report to the Minister. Apart from examining specific complaints, the Consumers' Committees are charged generally with the duty of keeping under review the effect of schemes upon consumers ; but they have no executive powers.

Secondly, any person who is aggrieved in any capacity other than that of consumer (as, for example, a milk distributor or a manufacturer of milk products) can complain direct to " the Minister " Any such complaint, and also any report by a Consumers' Committee, may be referred by the Minister to the appropriate Committee of Investigation. If a Committee of Investigation reports that any act or omission of a Board or any provision of a scheme is contrary to the interest of consumers of the regulated product or is contrary to the interest of any persons affected by the scheme and is not in the public interest, the Minister may direct the Board to take steps to rectify the matter, or he may amend the scheme or even revoke it. The Minister has power also, independently of any such report, to lay before Parliament a draft Order revoking a scheme if he is satisfied that the scheme is contrary to the interest of consumers, or is contrary to the interest of a substantial number of persons affected by the scheme and is not in the public interest.

There is thus statutory provision for every interest concerned to ventilate any grievances that it may have. Distributors and manufacturers can make formal complaint as to the terms of contracts prescribed by the Boards and apply for a revision ; the Minister may refer the complaint to the Committee of Investigation ; that Committee may in due course report in favour of the party making the complaint ; and the Minister, on such report, may take steps to rectify the matter. But this procedure is long and cumbrous. Pending its conclusion, the purchaser of milk has the choice of discontinuing business, or alternatively of carrying on business on terms which can only be settled retrospectively and the financial effect of which he has, therefore, no means of gauging. In fact, serious disturbances to the industry and interference with supplies in England and Wales were averted twelve months ago only through the intervention of the Minister, who was able to arrange with both parties to continue business relations, pending submission of

a report by the Committee of Investigation, on a basis that permitted of retrospective adjustment.

Consumers are in no better case. Individually they are not affected financially to a comparable extent, of course, but collectively any increase in the price of liquid milk falls upon them; and they can only make themselves heard long after the event. In practice each increase in price to the consumer has been, and may continue to be, a small one, insufficient in itself to warrant drastic action, though the cumulative effects may be serious. In case, however, it were felt that definite protection was needed by consumers against the price decisions of a Board, there are two courses that may be taken. One is by means of investigations by a Consumers' Committee and by a Committee of Investigation after the Board has fixed its prices, upon which the Minister may require the Board to amend the fixed prices. There would inevitably be some delay, and in the end the amended prices would presumably be those determined by the Minister. The second course would be for the Minister, with the approval of Parliament, to revoke the scheme.

The revocation of a scheme is a step which the Minister would obviously be unwilling to contemplate except in the very last resort. So far as England and Wales and the area of the main Scottish scheme are concerned, it is scarcely questionable that the result—in the absence of an alternative scheme—would be to destroy the stability of the industry and to involve producers in heavy losses. In effect, therefore, the only action that would be open to the Minister under the Acts to redress the just grievances of consumers is to undertake the fixation of prices himself. That would also be virtually the only course open to the Minister if, being satisfied by the Committee of Investigation that the prices fixed by a Board were contrary to the interests of distributors or manufacturers, he decided that they must be altered.

There are indications of the danger that in the negotiation of new contracts the Boards and buyers may either agree to terms which are disadvantageous to consumers, or may disagree, with the result that buyers will complain against the determinations of the Boards. It is to be anticipated, therefore, that the Minister may not infrequently be called upon to fix prices either negatively, by rejecting complaints and concurring in the determinations of the Board, or positively, by requiring the Board to amend its determinations. If there are complaints by consumers or by other interests, then the ultimate responsibility for the final prices rests with the Minister; and if that responsibility has to be shouldered as a matter of routine, it would seem to be much better as well as much quicker that the Minister or some impartial body acting in the public interest should take a hand in the task in the first instance. It seems to us that it would clearly be preferable in practice that the responsibility for determining prices should not be borne by the Minister, but should be undertaken by an independent body.

(v) Re-sale Prices.

We have been dealing so far with the question of the power to fix the prices at which registered producers shall sell the regulated product. In practice, however, each of the milk marketing Boards has gone farther and has fixed the minimum prices at which milk may be re-sold, whether wholesale or by retail.

In the case of the English scheme, the Board is specifically authorised to include terms in its contracts fixing the prices at which buyers may re-sell. Although none of the Scottish schemes contains an explicit provision of this kind, each of the Boards has, in fact, made it a term of the contract with purchasers that they shall observe the minimum re-sale prices prescribed.

The fixing of minimum retail prices, which are applicable to milk sold by producer-retailers as well as to milk sold through trade channels, affords protection against under-cutting to all distributors of milk. For that reason, distributors, far from objecting to the inclusion of re-sale clauses in the contracts, have welcomed the principle. Indeed, we understand that the re-sale clauses were inserted, and have been retained, at the express desire of the distributors.

It is obvious, however, that the attitude of distributors must depend largely upon the amount of the distributive margin provided by the Board's determinations. If the retail prices fixed by a Board offered, in the view of distributors, an insufficient margin, it would still be possible for distributors to agree among themselves to charge higher retail prices ; in that event, however, the protection against under-cutting would be reduced.

Without expressing, at this stage, any opinion as to the desirability or otherwise of fixing minimum retail prices for liquid milk, it seems to us extremely difficult to defend in principle the fixation of those prices by a producers' Board. Moreover we think that, in practice, the exercise of this particular power must create a tendency for the Boards and distributors to agree between themselves upon terms that will be advantageous to both parties at the expense of the consuming public.

(vi) Final Determination of Prices by an Impartial Body.

The conclusion to which all the indications point is, we think, that where price-fixing in the milk industry is desirable, the prices prescribed should be subject to the prior approval of an impartial body appointed by the Government. The placing of the power of price-fixing in the hands of any one of the interested parties, whether it be producers, buyers or consumers, does not, in our opinion, offer a real alternative, because it necessarily requires measures to safeguard the others ; and these safeguarding measures mean, in effect, the constitution of an appeal tribunal in whom the actual power to approve or not to approve the fixed prices must reside. Nor is a joint body representing all the interests different

in essentials; for in order to avoid an impasse and to prevent collusion between two of the parties to the detriment of the third, it must contain a preponderating independent element, or alternatively the independent element must be endowed with special powers not possessed by the other members of the body. The main difference is that in the one case the views of each of the interests must be expressed to the independent members in the presence of the other interests, whereas in the other case consultations can, where it is thought desirable, take place separately. We have no doubt that there would be great advantage, at times, in separate meetings between an impartial body and the individual interests, in that this method lends itself most readily to the judicial examination of all the relevant facts and figures, with the aid of such expert advice as may be needed.

If buying prices were subject to approval by an impartial body, it would still be essential that returns to producers should be sufficiently remunerative to secure the quantity of milk needed; but there would be control over the extent to which losses in the disposal of surplus milk in manufacture should be made good at the expense of the consumer of liquid milk. This is, in our view, the only practicable means of safeguarding the interests of consumers and of preventing recurrent conflicts between producers and buyers. We believe, furthermore, that the permanent interests of producers would be best served by the transference of final authority over prices to an independent body. The relations between the Boards and their customers would be improved; a greater stability would be assured to the industry; uncertainty as to the future course of prices would be lessened; and the Boards themselves would be more free to concentrate on the important constructive tasks which await them. It seems to us that this would offer the best foundation for co-operation between all the interests to their own ultimate benefit and to the national advantage.

CHAPTER 21.—LIQUID MILK PRICES.

The estimated consumption of fresh milk per head in this country is about $2\frac{1}{2}$ pints per week. This figure, which has not varied appreciably in recent years, is below that in a number of other countries for which statistics are available. To some extent, no doubt, the difference is due to different national habits; for example, more milk is taken with coffee than with tea, and the United Kingdom is predominantly a tea-drinking country. It should be noted that the proportion of agricultural and rural population is higher in these countries than at home, and these sections tend to consume more milk than most sections of the urban population. It may also be important that more animal protein in the form of meat is consumed per head in the United Kingdom than in any of the European countries with which comparison is usually made. It is probable, too, that habit and indifference play a large part in

determining the consumption of individuals. Further, the comments made by some members of the medical profession and others on the danger of drinking contaminated milk, together with the divergent views which have been expressed as to the relative merits of raw and treated milk, must have given rise to suspicions on the part of many people as to the safety and value of the general supply. Nevertheless the evidence which we have received suggests that price is an important factor limiting consumption, particularly, of course, among those with least money to spend.

Surveys of milk consumption made in recent years by independent observers in certain areas of Great Britain show how consumption diminishes in the lower ranges of income. An estimate made by the Market Supply Committee* indicates that there is a very wide variation in the consumption of milk between different sections of the population, according to income levels. While those with the higher incomes consume slightly more than five pints per head per week, consumption of fresh milk at the lower income levels dwindles to negligible quantities, though condensed milk takes its place to some extent. Among the poorest one-tenth of the population the consumption of fresh milk has been estimated at less than one pint per head per week, while for about 3 per cent. of the population, comprising over $1\frac{1}{4}$ million people, it appears to be below two-fifths of a pint per week. The poorest sections of the population include a relatively large number of families with young children, and these are the families which would benefit most from a sufficient consumption of milk.

There are, moreover, other indications of the effect of price upon consumption. The reason that has led retailers in a large number of areas in England and Wales to ask the Board to reduce the minimum retail price was presumably that they found that their sales were adversely affected by the high price. The increase of over 150 per cent. in the amount of milk consumed in schools when the price was halved under the Milk-in-Schools schemes is an indication that a very substantial price reduction, coupled with propaganda, can effectively increase consumption. Another, though negative, indication is the apparently slow response of the public to milk publicity campaigns. It is too early yet to judge the full effects of such campaigns, but we think it probable that had they had the solid foundation of a lower price, coupled with a greater assurance of purity, this type of propaganda would already have been much more effective.

It is evident that price is an important factor in limiting the consumption of liquid milk in this country ; and since it is desirable in the national interest as well as in the agricultural interest to increase consumption, it follows that every effort should be made to keep the price of milk as low as is consistent with the fair

* See "Food, Health and Income," by Sir John Boyd Orr. Macmillan & Co., price 2s. 6d.

remuneration of those engaged in its production and distribution. Efficiency in methods of production, and still more perhaps in those of distribution, is of primary importance in this respect; but there are also other factors in present liquid milk prices that demand attention, and these are considered in the following sections of this Chapter.

(i) The Burden of Manufacturing Milk.

The present price of liquid milk to the consumer is raised above what might be called its " natural " level by reason of the subsidisation of the returns from milk sold for manufacture out of the returns from the liquid market. Broadly speaking, out of every 150 gallons of milk sold off farms* in Great Britain in the milk year 1934-35, 100 gallons were bought for liquid consumption. The remaining 50 gallons were bought for manufacture, and the price realised for this milk was substantially lower than the price paid to the producer. Consequently, in order to secure to producers the prices they in fact received on the 150 gallons, the price charged to the distributor of liquid milk for the 100 had to be high enough to make up the loss on the other 50 gallons.

In view of the variations from day to day and from place to place both in the volume of milk produced and in the volume of demand, it is necessary that the supply available should at all times exceed the normal requirements of the liquid milk market; otherwise there would be temporary and local shortages. In other words, a " reserve " must be maintained in order to ensure a sufficient and regular supply to the liquid milk market. Whatever the minimum safety margin may be, it would hardly be possible to maintain that minimum in winter without exceeding it in summer, owing to the seasonal variation in output. The reserve should be regarded as including the whole of the additional production in summer of the cow population needed to supply the winter requirements of the liquid milk market and its necessary reserve. Naturally this volume of additional milk produced in the spring and summer would fall if production generally were to be arranged on a less seasonal basis.

It is reasonable that liquid milk consumers should bear any loss sustained in disposing of the reserve necessary to the liquid milk market, but not that they should also bear any loss on the remainder, which is in no way essential to the maintenance of the liquid milk supply. The position is entirely different from that where the production of one commodity is necessarily accompanied by the production of another (e.g., wheat and straw, or linseed oil and linseed cake). In such cases the prices realised for the two products must between them be sufficient to cover the costs of the processes by which they are obtained. But the liquid milk supply (including the reserve) and the manufacturing milk which

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* Including milk made into cheese on the farm under the arrangements operated by the English and main Scottish Boards.

is surplus to that supply are not produced under these conditions of joint cost; the one is not a joint product, or a by-product, of the other; and the same considerations therefore do not apply.

We note that the Committee of Investigation for England, in their recent Report, while holding that the consumer should bear any loss on the sale of that quantity of milk which is necessary as a reserve for the liquid market, accept in principle that the liquid milk price should not take into account losses incurred on the sale for manufacture of any further surplus. It is understood that the figure of 15s. 3d. per dozen gallons recommended by the Committee as the wholesale price of milk for liquid consumption was calculated with reference solely to the requirements of the liquid market and its appropriate reserve. The Committee were, however, careful to point out that the purpose of their inquiry was to investigate specific complaints against the contract for 1935-36 prescribed by the Board; they were not concerned with matters of general policy. Further, it was necessary for them to reach some immediate decision, in spite of the limited character of the material available to them. From a careful study of their Report it is clear that they were the first to appreciate the inadequacy of the figures and methods which, in the circumstances, they were compelled to use.

As a matter of long term policy it is, in our view, impossible satisfactorily to build up a producer's price from average or modal production costs and estimates of reasonable profits. The ultimate test must be whether or not, over the long period, the price offers sufficient inducement to producers as a whole to produce the quantity of milk required.

When this test is applied it becomes obvious from the course of prices and production (not merely sales) over the last few years that the needs of the liquid milk market and its reserve could have been supplied at an appreciably lower price, which would still have been remunerative to the producers of that milk had there been no surplus; or in other words, that it would not have been necessary to raise liquid milk prices to their present level but for the loss on the surplus. In these circumstances, while it may be true that some part of the burden of the loss on surplus manufacturing milk is borne by producers, the greater part of it must undoubtedly be included in the price charged for liquid milk. In view of the special importance of milk to families with young children, it seems particularly undesirable that the price of liquid milk should bear any additional charge in respect of surplus manufacturing milk.

There are two alternatives. One is to reduce production to the point at which the output balances the needs of the liquid milk market and its reserve. The other is to provide assistance from some other source for the continued production of milk at present surplus to the requirements of the liquid milk market.

The first of these courses is, in our view, out of the question for several reasons. In the first place, it has been the policy of successive Governments to maintain agricultural production, and this policy has in recent years found expression in the support of manufacturing milk prices by Exchequer advances. Secondly, the recent low values of manufacturing milk are the result of abnormally low world prices of milk products. Any recovery in these prices would reduce the loss on manufacturing milk. Thirdly, if a 20 per cent. increase in liquid milk consumption were secured in the course of a few years, practically the whole of the present output would be required to meet the needs of the liquid milk market and its reserve (other than the seasonal flush), and in these circumstances it would be a retrograde step to allow production to decline.

For these reasons the second alternative appears to be the more practicable and generally beneficial. This would mean that the money which is now found by liquid milk consumers for the subsidisation of manufacturing milk, other than the reserve, would have to be provided from elsewhere, through some form of State assistance.

(ii) Variations in Wholesale Liquid Milk Prices.

As a result of the arrangements made under the English and the main Scottish schemes whereby large buyers are able to obtain milk for manufacture at realisation values, an important variation has arisen between the wholesale prices payable for liquid milk by buyers who are able to take advantage of such arrangements and by those who are not. There are also seasonal variations in wholesale prices, and variations according to the quality of the milk. In pre-scheme days there were, in addition, appreciable local variations in wholesale prices. All these are discussed briefly below.

Variations according to quantity.—The effect of the special arrangements for supplying manufacturing milk to large buyers at realisation values is that these buyers are able to obtain their exact daily requirements of liquid milk at the ordinary wholesale contract price. Smaller buyers, on the other hand, either pay the ordinary price for variable quantities or pay a premium to secure delivery of level quantities; and if they desire to be supplied with their exact daily requirements a larger premium is usually payable. In effect, therefore, large buyers may be regarded as enjoying an advantage over smaller buyers either in the services they receive in return for payment of the ordinary wholesale price, or alternatively in the price they pay for delivery of their exact daily requirements of liquid milk.

There are, however, certain definite advantages to the Boards, and thus to producers, in dealing on special terms with buyers who are prepared to take large quantities. In the first place, these large buyers at present provide the most economical outlet open to certain of the Boards in disposing of the surpluses over the requirements of the liquid milk market. Again, with large transactions the machinery for dealing with accounts is greatly simplified,

and the business risks are reduced. A further important consideration is that, from the public standpoint, it is desirable that the assembly and wholesale handling of liquid milk should be concentrated in the hands of efficient and well-equipped firms; but effective control over quality is difficult where milk is passing in small consignments from producers to large numbers of buyers, among whom facilities for handling and treatment may not always be adequate. For such reasons we think it not unreasonable that this particular form of differentiation should continue.

Variations due to quality.—Price variations due to quality are, in general, necessitated by the higher cost of producing graded milks than milk of a lower standard; and many consumers are prepared to pay higher prices for milk of special quality. Accordingly both the wholesale and the retail prices of Certified and Grade " A " (T.T.) milk are higher than those of ordinary milk. Accredited (or Grade " A ") milk is, however, usually sold at the same wholesale (and retail) price as ordinary milk and is indeed not infrequently bulked with it.

Seasonal variations.—Wholesale prices vary seasonally under all the schemes except the North of Scotland scheme. This seasonal variation naturally tends to be reflected in retail prices, though the retail variation is not always of the same amount.

In present circumstances it would be difficult under the two larger schemes to depart from the practice of varying wholesale prices according to the season; for the producers' price depends upon the income of the pool, and it would only be possible to maintain a suitable difference between producers' prices in summer and winter either by making a similar variation in wholesale prices or by withholding some part of the income from the pool at one season and distributing it at another. Nevertheless, because variations in wholesale prices generally involve variations in retail prices, and large fluctuations in retail prices may tend to discourage consumption, it is desirable that seasonal variations in wholesale buying prices (though not necessarily in producers' prices) should not be large.

Local variations.—The introduction of the schemes has involved a major change in regard to local variations in wholesale prices. Before their introduction the prices at which distributors bought their supplies varied in different parts of the country. The large towns had to draw milk from a wider area, so that the delivered cost was higher than for small towns. This higher cost was reflected in higher prices; milk could be purchased more cheaply by distributors in small country towns than by those in the large towns. In some parts of the country it was, for example, the practice, under local agreements based on the Permanent Joint Milk Committee's " London " agreements, to recognise the London price *less* the cost of carriage to London as the wholesale price.*

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* Economic Series No. 38; pp. 191–2.

Under the schemes, however, distributors throughout each scheme area have, with a few minor exceptions, been charged a uniform price. This has meant a rise in wholesale prices in many of the smaller towns in England, because the uniform price is based on the cost of supplying London, the largest of the consuming centres. In the same way the price under the main Scottish scheme is presumably based on the Glasgow and Edinburgh markets as the standard.

There is no reason in equity why distributors, and therefore consumers, throughout the country should pay a price based on the cost of supplying the largest of the consuming centres when the cost of supplying their own neighbourhood is less. The problem of local differentiation in wholesale prices for liquid milk is, however, closely bound up with the arrangements made for the payment of transport costs.

(iii) Variations in Retail Prices.

Variations in the retail prices of milk must be considered by reference to a number of factors, including the quality of the milk, seasonal changes, the standard of distributive service given, and the locality of sale. It is reasonable that in appropriate cases the distributor should obtain a somewhat wider margin on graded milk where, in addition to his ordinary service, he is responsible for the maintenance of the necessary standard through to the consumer. In the main, however, the higher retail prices of graded milks are due to the higher wholesale prices. Seasonal variations in retail prices are similarly mainly due to the corresponding variations in wholesale prices.

Variations according to service.—Under the schedules of minimum retail prices that have been prescribed by the Boards, distributors' nominal margins have not varied according to the services rendered. During the past two years the Consumers' Committees for England and Wales and for Scotland have repeatedly commented upon the unsatisfactory position that has resulted from the fixation by the Boards of flat minimum retail prices. While the Scottish Committee have been concerned mainly with the general level of prices, particularly in summer, the English Committee have stated their view that " having regard to the wide variations which occur in the character and cost of distributive services " the minimum margins prescribed by the Board have not been fixed at sufficiently low levels; these margins have therefore tended " to impose on certain sections of the public charges for milk which are out of proportion to the services rendered in its distribution." It is their general view that the fixing of wholesale milk prices does not necessarily involve the fixing of retail milk prices.

If, however, distributive margins were to be fixed directly, or if they were to be fixed indirectly by prescribing retail prices, it

would seem to be desirable to fix not one margin, but a schedule of margins graduated according to the services rendered and to the cost of those services. Different margins would be required for milk sold over the counter and for milk delivered; for milk loose and for milk in bottles; and for raw milk and for processed milk. A complex schedule of margins of this kind would be difficult to operate and enforce.

At first sight it might seem that the difficulty could be overcome by fixing a minimum margin based on the minimum service. But a minimum margin that was really fixed by reference to the lowest type of service would be of no protection whatever to the great bulk of the distributive trade. If, on the other hand, the minimum were fixed at a level which would afford protection to a substantial proportion of the trade, it would be unduly large for those distributors giving the less expensive types of service.

There are also objections to a fixed maximum margin. If fixed at a level related to the highest type of distributive services, it would not exert any restraining influence on the margins charged for lower types of service; and if it were fixed below this level it would no longer be possible to provide the highest type. The practical danger is that any maximum margin fixed would tend to become regarded as a standard margin applicable to a large proportion of the total quantity of milk sold retail, irrespective of the service given.

Variations according to locality.—We have described how the schemes have introduced uniform wholesale prices for liquid milk throughout their areas, and how this, together with the prescription of minimum retail prices, has resulted in materially higher prices in many parts of the country. Where a rise in wholesale price has taken place, the distributor has naturally passed the increase on to the consumer, and the retail price has risen correspondingly. If appropriate local variations in wholesale prices were restored, it is to be expected that the reductions in wholesale prices in country places could be carried through to the consumer in the shape of lower retail prices.

Apart from the special price reductions in a number of districts that have been permitted under certain of the schemes, the English Board has, in fact, prescribed different retail prices according to the character and population of local government divisions. As wholesale prices are uniform throughout England and Wales, such differentiation evidently assumes that costs and services are lower in smaller than in large towns; and while this may be an approximation to the facts, it can obviously only afford a very arbitrary criterion of differences in services and costs, for within any one of these divisions there may be, and frequently are, many grades of distributive service. Furthermore, this method of differentiation gives rise to considerable difficulty where the area covered by a retailer includes districts with different retail prices.

(iv) The Fixing of Retail Prices.

The scaling of margins in precise accordance with the services rendered and the enforcement of those margins would, we think, be the only satisfactory method of controlling retail prices, but it would obviously present serious difficulties. It is, therefore, necessary to consider whether retail prices should be prescribed at all, or whether they should be left to be determined by competition.

There are, we understand, several reasons that have influenced the Boards in deciding to fix minimum retail prices or minimum distributive margins. In the first place, it has been feared that if retail prices were left free from control, there would be a tendency on the part of some of those engaged in retail distribution to cut prices, and that this would lead to a demand for a reduction in wholesale prices in order to enable distributors generally to compete. In particular, apprehension has been expressed regarding the possibility of price-cutting by producer-retailers. In consequence it is suggested that the fixation of retail prices, applicable both to producer-retailers and the trade, is necessary in order to maintain wholesale prices. Secondly, it is understood that the English Board at least has felt that, from its own point of view, it is desirable that the distributive trade should be assured of reasonable prices, since that must reduce the risk of bad debts. We do not think that great importance should be attached to either of these considerations. It does not seem to us that the decontrol of retail prices need create any special difficulty in maintaining reasonable wholesale prices for liquid milk; and there are other ways and means open to the Boards to safeguard themselves against the danger of bad debts.

We believe, however, that the control of retail prices or distributive margins has been undertaken by the Boards mainly at the request, and in the interests, of distributors. The case that is put forward from this point of view is that, if producers are protected in the matter of their prices, distributors should be similarly entitled to protection in the matter of their margins; and further, that unless distributors can be assured of a remunerative margin, the standard of service is likely to be depressed through the price competition of those distributors who give the lowest services.

Although the schemes were not specifically intended to improve the position of distributors, it seems clear that, even if retail prices were freed from control, the distributive trade would have less reason, under the schemes, to fear the competition either of producer-retailers or of distributors giving low-grade services than it had before the schemes came into operation. The distributive trade generally is in a large measure protected from serious undercutting on the part of its own members, because individual distributors are no longer able to buy milk at cut prices and so to undercut the retail market. Further, the trade enjoys the same sort of protection from severe undercutting by producer-retailers, because every

producer-retailer is able, if it pays him better, to give up his round and to obtain the current pool price by selling his supplies through the Board.

There may be some justification for the belief that if retail prices were left free from control some distributors would tend to reduce prices at the cost of services; and that in consequence there would be an incentive for the public to buy milk in the cheapest market, even though it might have been handled under unsatisfactory conditions. We think, however, that protection to the consuming public in this matter should be secured through the public health regulations governing the sale of milk. If it is felt that they are inadequate for the purpose, or that they are insufficiently enforced, then either the regulations themselves or their manner of enforcement should be strengthened.

If the system of retail distribution were to be changed in such a way as to reduce the force of competition, it might prove necessary to fix retail prices for the protection, not of the trade, but of consumers; and even in existing circumstances it may be necessary in special cases to put an upper limit to retail margins. But under present conditions the fixing of minimum prices and margins seems in general to be undesirable. It must prevent an efficient distributor from attempting to extend his business by lowering prices, even though the price reduction were justified by his costs, and thus it must tend to prevent the public from benefiting from the efficiency of the most progressive elements in the trade.

PART IV.—RECOMMENDATIONS FOR THE FUTURE OF ORGANISED MILK MARKETING.

CHAPTER 22.—OUTLINE OF AIMS AND PROPOSALS.

In 1933 the Grigg Commission defined* the main objects of the reorganisation of the milk industry as being :—

(*a*) " The strengthening of the position of the producers, by enabling them to negotiate as a solid body with one voice and with adequate information, and by ensuring that negotiated agreements are universally observed.

(*b*) The prevention of under-cutting of the liquid market, and the provision of satisfactory arrangements for the sale of milk for manufacture. This is necessary to establish a clear distinction between the two markets for milk—liquid consumption and manufacture—and to secure the return to producers of their fair share of the proceeds of all milk sold in the primary and more lucrative market.

(*c*) The improvement of the quality of our milk supplies.

(*d*) The stimulation of the demand for milk for liquid consumption.

(*e*) The recognition of the service rendered by producers who cater primarily for the liquid-milk market.

(*f*) The development of the manufacture of milk products.

(*g*) The co-ordination of the efforts of all concerned—producers, distributors and manufacturers—to secure prosperity for the whole milk industry of the country, but with adequate safeguards for the interests of the consuming public."

The Grigg Commission was concerned only with the milk industry in England and Wales, but in general there is nothing in this statement which could not have been regarded as applicable to Great Britain as a whole.

The aims thus defined by the earlier Commission fall into two groups, namely, those which directly concern only the producer, and those which concern also, and sometimes even more closely, other interests. It was, no doubt, because some at least of the matters concerning other interests do not seem to be appropriate to be dealt with by producers' Boards alone that the Grigg Commission recommended a more comprehensive form of organisation.

In some respects—more especially in the strengthening of the bargaining position of producers and the prevention of undercutting in the liquid milk market—the immediate aims of the earlier Commission have been substantially achieved as a result of the operation of the schemes. But not all the difficulties of producers have been disposed of, and in certain other respects also the position is still unsatisfactory. The cost of maintaining a

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* Economic Series No. 38, page 75.

manufacturing industry has proved to be heavier than had been foreseen, and at the same time the need for increasing the consumption of liquid milk has become more obvious and more urgent. While the objects laid down by the Grigg Commission are still of interest, and indeed still afford general guidance, they do not seem to us to meet entirely the needs of the present situation.

(i) The Needs of the Situation.

In our view there are three fundamental objects of organised milk marketing. The first is to ensure that all sections of producers, and all other interests concerned with the milk industry, are treated equitably. The second is to secure that production is carried on in the areas, and by the methods, providing the greatest efficiency and economy, and that the processes of distribution are conducted at the lowest cost consistent with the quality standards required and the type of service given. The third is to increase the amount of liquid milk consumed by all classes of the community, but particularly by those who need it most.

The various aspects of the first of these general objectives have been discussed in the course of our examination of the effects of the schemes and of certain principles related to them. The second aim cannot be achieved by sudden or drastic action; any reorganisation of supply must affect the distributive system, and any change in the latter is likely to react on the relative positions of different classes of producers. It is obvious that progress towards this second objective must be on the basis of long-term policies and plans. As regards the third, it is important at this stage to draw attention to the rapidity with which the conception of a national nutritional policy, beginning with milk, has been developing during the last year or two. The re-orientation of public opinion in this respect is well illustrated by the history of the Milk-in-Schools schemes, which, though originally undertaken as part of a publicity plan, have come to be regarded by the public mainly as a step towards a healthier nation. It is from this point of view that the Milk-in-Schools movement has received support from all quarters; and there is steady pressure for the extension of the plan to other groups, such as nursing and expectant mothers and children under school age, not as a measure of publicity, but as a desirable social service. This development of public opinion is a relatively new factor of great importance which we have kept in mind in the survey of the particular needs of milk marketing organisation which follows.

Producers' requirements.—The first object of a milk marketing scheme must obviously be to secure a level of returns that is remunerative to reasonably efficient producers. An important step was taken in this direction by the introduction of the schemes. The position of producers in price negotiations (cf. (*a*) above of the Grigg objectives) was strengthened greatly: indeed each of the schemes, by conferring price-fixing powers on producers' Boards alone, has gone some way beyond the intentions of the previous

Commission. As a result the average level of producers' returns has been raised, but there is no assurance as to what it may be in the future. To secure stability in the industry it is desirable to ensure a level of returns that gives fair but not excessive profits, and to provide, for this purpose, a satisfactory test of fair profits. It would also prevent misunderstandings and facilitate planned production if producers could be informed before the beginning of each year what were to be the prices payable to them throughout the forthcoming year.

From the point of view of producers, a second aim should be to provide suitably for the distribution among different classes of producers of the income from the sale of milk. The undercutting of the liquid milk market by supplies surplus to its requirements (cf. (*b*) above) has been prevented by the introduction of pooling systems; and in the division of the pools the special cases of level producers and others who cater particularly for the liquid milk market (cf. (*e*) above) have been recognised in different ways under each of the schemes; but both the principles and the details of differentiation between producers in the matter of prices have given rise to serious differences of opinion.

We have expressed in Chapter 15 our general agreement with the view of the Grigg Commission that provision should be made, temporarily at all events, for variations in the levels of returns to groups of producers according to locality, and we have indicated the more permanent need for seasonal variations. It is essential that, in the application of this principle of differentiation, there should be great flexibility and that, in avoiding or minimising hardship to any particular group of producers, due weight should be given to all the other interests concerned. The basis of differentiation and its amount are matters which cannot be settled once and for all, but which must be determined from time to time in the light of events.

Nothing in either of these requirements of producers need run counter to the proper interests of others concerned with the milk industry. It is true that these others—distributors, manufacturers and consumers—wish to buy milk at the lowest practicable price; but unremunerative prices to the producing industry at large, or unfair differentiation between classes within that industry, or instability due to any other cause would not be to their ultimate advantage because of the danger to supplies that would ensue. The chief considerations of the other interests in relation to producers' returns are that the general level of prices to producers is not higher than is necessary to remunerate them reasonably for their services and that, in providing for any differentiations in price between groups of producers, due regard is given to the necessity for economical production.

There are, of course, some other matters affecting producers which require attention—matters concerning organisation, the representation of various interests on, and methods of election to, the

Boards. These can, however, be left for the moment. They are not objectives in themselves, but only the means of attaining objectives.

The needs of distributors and manufacturers.—The principal object of distributors and manufacturers must be to secure satisfactory buying prices and conditions of contract, though they are, of course, also interested in the cleanliness and quality of milk, in the certainty of supply and in the general smooth working of the marketing machine. As regards both prices and conditions it is necessary not only that the terms should be fair, but that they should be free from any suspicion of partiality.

To manufacturers, buying prices, or the basis for fixing those prices, are of vital importance, for their businesses cannot continue unless they can buy milk at a price which will allow them to sell the final product at a profit in competition with imported products. To distributors, the price is not of quite the same importance, provided that they are able to obtain a sufficient margin between the wholesale and the retail price, though every increase in price must tend to restrict the volume of the trade. But in the public interest it is necessary to keep both wholesale liquid milk prices and distributive margins down to reasonable levels.

Another matter of great concern to manufacturers is long term stability. But we have seen that, while the manufacture of milk products in creameries and factories has made rapid progress in England and Wales and in the main Scottish area, practically the whole of this industry is conducted on an uneconomic basis in the sense that the prices obtainable for the final products are insufficient to enable manufacturers to pay prices high enough to cover the cost of production of the milk used in them. The loss on manufacturing milk has been borne in part out of advances made by the Government, but mainly out of the price realised by milk sold for liquid consumption.

It may still be thought desirable, as a matter of Government policy, that the production of milk in this country for manufacture should not only continue, but expand (cf. (*f*) of Grigg objects). In any case, it would be impracticable to reduce at once the total output of milk to the level of the present liquid milk requirements and the reserve necessary to safeguard the liquid milk supply. For that reason some production of milk for manufacture in excess of the amount of the reserve must continue, at least for the time being. But it seems to us entirely unsatisfactory that this industry should continue on the basis of an unseen and indeterminate subsidy from the liquid milk market. Decisions as to the extent to which the production of milk for manufacture should be subsidised should rest entirely in the hands of the Government, not, as they largely do at present, in the hands of the milk industry itself.

It may also be a matter of some moment to manufacturers to secure that their supplies should be as level over the year as

is reasonably practicable, since regularity of throughput may be one factor in reducing manufacturing costs. Under a system of realisation values for manufacturing milk, however, the prices payable by manufacturers would, no doubt, take general account of the additional costs or the savings due respectively to a seasonal or a level supply. In that case regularity of supply would not matter so much to manufacturers generally, though it would still be necessary to provide that manufacturers were treated equitably.

Consumers' interests.—We have left until last the interests of consumers and the wider public interests that are concerned with milk. The two are interlocked : increased milk consumption is itself a matter of national importance ; and the interest of the consumer in cheap milk is one aspect of the interest of the nation in the economical use of its resources and in the health of the people.

Some steps have been taken by the Boards towards improving the quality of the milk supply ((*c*) of the Grigg objectives) ; and the Boards, in conjunction with the distributors and the Government, have devised measures and provided funds to stimulate the demand for liquid milk ((*d*) above). But in spite of these efforts, it remains the fact that the only interests that have suffered as a whole from the schemes have been those of consumers ; retail prices have risen, and the result has been to limit consumption, or at least to discourage its expansion, especially among the poor.

We have already recorded our view that, as a matter of national importance, every practicable step should be taken to increase the consumption of liquid milk. There are a number of factors that influence the level of consumption, the most important of which are probably price in relation to purchasing power, the safety of the supply from the point of view of health, and the public taste for and appreciation of milk. Full recognition of the importance of milk in the diet will only come as the result of continuous educational propaganda, on which a start has already been made. Increased safety can be secured by improvements in methods of production and handling. Reductions in costs, and thus in price, may also be secured by improvements in methods of production and distribution. Every effort should therefore be made in all these directions ; for it should be the aim of organisation in the milk industry to provide consumers generally with supplies of clean, safe milk at reasonable prices, and to facilitate special arrangements which will enable even the poorest to obtain their requirements at prices they can afford to pay. This national nutritional objective should not, of course, be allowed to interfere with the full and proper remuneration of producers and distributors.

But it is clear that, with the best will in the world, the progress that the producers' Boards can make unaided towards some of these wider objectives is limited. In the first place, the burden of subsidising the existing production of manufacturing milk falls largely upon liquid milk prices, and we doubt whether the Boards

could, by their own action, get rid of it. Secondly, even if they could do so, and if they could also bring about every practicable economy in production, the consequent reduction in prices would probably be insufficient to induce any considerable increase in milk consumption among those classes which need it most. Specially low prices to these classes offer the only immediate solution of this problem. Thirdly, while the producers' Boards may be able to secure some improvements in production, in the interests both of economy and of greater safety, they may find it difficult, on their own initiative, to go as far as is desirable, because of the effects upon sections of their constituents. Fourthly, both cheaper milk and safer milk may demand improvements in methods of distribution, but the producers' Boards are not the bodies to which the nation could, or should, look for methods of improving distribution. Finally, even in the matter of publicity the responsibility should not (and does not now) rest solely with the producers' Boards.

For these reasons it would be unfair to expect that the national objective of largely increased consumption, and the consumers' objective of cheap supplies of safe milk, could be achieved through unilateral action on the part of producers' Boards. Not all of the necessary power lies in their hands, and it would be improper that it should. For these same reasons, it is impossible to look to the Boards, representing as they do only one side of the industry, to formulate and direct plans for the benefit of all interests. If these larger issues, involving the health of the nation, are to be dealt with, and the full co-operation of all sections of the industry is to be secured (cf. (*g*) of the Grigg objectives) something additional to the producers' Boards is clearly required.

(ii) Outline of Proposals.

It will be convenient at this stage to set out, in the broadest outline, the actual proposals that we make in the light of the foregoing considerations. The present purpose is merely to give a general picture, so that our principal recommendations may be seen in relationship to one another. For that reason no explanation is given here, but each of the proposals is dealt with in some detail in subsequent Chapters.

We recommend, in the first place, that in order to permit of lower prices for liquid milk and thus to increase milk consumption, the State should provide funds to allow milk to be sold to selected classes of consumers at specially reduced prices, and should also take over the burden of the loss on the remaining surplus over the requirements of the liquid milk market and its reserve.

Secondly, we propose that the prices payable to producers should no longer be ascertained by pooling the receipts from sales and dividing the total among producers according to their gallonages. Instead, the prices payable to producers should be fixed in advance at a level estimated to call forth the quantity of milk

required. In deciding what is the total quantity of milk required, it will be necessary to take into account what may be called the " normal " demand for liquid milk; the extent to which the Government are prepared to assist the provision of milk to special classes of consumers; and the extent to which they are prepared to subsidise manufacture. These three things together will determine the total quantity of milk required from the farms, and the price payable to producers should be sufficient to secure its production. In the first instance, at all events, it is not intended that the quantity should be less than the present output.

This price which producers will receive should be fixed at different levels for different regions and different seasons. It should be subject also to quality bonuses, but to no deductions except for transport.

Thirdly, the wholesale price of liquid milk (i.e., the price paid by the distributor) should be fixed at such a level that the income from its sale, together with the income from the sale of manufacturing milk and the Government grants in respect of manufacturing milk and " assisted price " milk, will be sufficient to meet the payments due to producers. It is hoped that Government grants may be made available to bear the whole of the loss on milk in excess of the requirements of the ordinary liquid milk market and its reserve, including the loss on " assisted price " milk. In that case the ordinary wholesale price of liquid milk could be correspondingly reduced, with a consequent reduction of the retail price.

Fourthly, we recommend a form of machinery for the determination of both producers' prices (including regional and seasonal variations in them) and selling prices for milk. Under our proposals these should not be " negotiated " prices in the sense that they would be arrived at as the result of bargaining. They would be prices calculated, on the basis of all the information available, to give certain desired results. It is essential that they should be fixed impartially, and we therefore propose that a permanent independent body should have final responsibility in determining them.

Fifthly, we propose some changes in the administrative structure of the schemes themselves designed to assist in implementing the policy outlined above. The most important of these is the substitution of an all-Scotland scheme on a regional basis for the present and projected schemes. We also propose some changes in electoral procedure.

Sixthly, we discuss the means by which the various interests concerned with milk may be co-ordinated. The independent body already mentioned would itself keep in the closest touch with all sections of the industry and would thus do much to co-ordinate the aims and efforts of the different sections, to their mutual advantage.

Finally, we propose that the same independent and impartial authority should have wide functions in the capacity of a permanent Milk Commission, planning and acting, in co-operation with all sections of the milk industry, with the objects of promoting the progress of the industry and of expanding the consumption of liquid milk. These objects are important from the standpoints of national nutrition, of agriculture, and of the national economy as a whole. They are of course closely interwoven; for while improvements in methods of production and distribution are desirable in themselves, they will also make possible reductions in price which must encourage consumption, to the benefit both of agriculture and of the public health. The ultimate objective of the Milk Commission may thus be regarded as a single aim to be pursued by many different means; research, education and publicity will have to be used and co-ordinated by the Commission in the task of developing the milk industry in the widest national interest.

CHAPTER 23.—PROPOSALS FOR ASSISTING LIQUID MILK CONSUMPTION.

The first necessity in securing an expansion of the consumption of liquid milk is to reduce prices. Although we have not found it possible to examine in detail the conditions and costs of milk production and distribution—and indeed, we should have exceeded our terms of reference had we done so—we think there can be no doubt that substantial reductions in the retail price of milk could be made through improved methods of production and, still more perhaps, of distribution.* It seems inevitable, however, that major economies through improvements in production and distribution must take some time to effect and that no considerable reduction in retail prices would be practicable in the immediate future without special financial aid from the Government.

Under the Milk Acts, 1934 and 1936,† the Government has already undertaken, for a limited period, to provide funds for assisting the milk industry. Part of the money has been allocated to the improvement of production; part to the Milk-in-Schools plan and other publicity purposes; and part (on a basis that may involve repayment from the Boards) towards supplementing the returns from manufacturing milk. Money spent on these objects should be of benefit to consumers as well as to producers; but we suggest that, as a long-term measure of assistance to both the consuming public and the industry, a substantial annual fund should, instead, be made available for assisting both consumers and the industry through the direct stimulation of milk consumption. This money should be used to relieve the ordinary liquid milk market of the

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* These matters are discussed further in Chapter 29.

† See Appendix I.

burden which it bears in respect of surplus milk over and above the reserve necessary to safeguard the ordinary liquid supply, and also to make milk available at assisted prices to classes or groups of consumers who are in particular need of it. These two uses for the subsidy are closely connected with each other, for the increased requirements of consumers in the assisted price market would have to be met from the surplus supply. To that extent, a grant of assistance to special groups of consumers would at the same time help to relieve the ordinary liquid milk market of the burden of surplus.

We wish to make it clear that the changes in the principles of the schemes and the machinery of administration which we recommend later would, in our opinion, still be desirable in themselves even if the Government found it impossible to provide further financial assistance. Nevertheless such assistance will be necessary if immediate effect is to be given to some of our other proposals. The main reason for dealing first with these particular recommendations is, however, that an explanation of them at this stage will assist in clarifying the recommendations made in the next two Chapters regarding the methods of determining producers' prices and the prices at which milk should be sold to the trade.

(i) Relief from the Burden of Manufacturing Milk.

In Chapter 21 we have drawn attention to the burden which consumers of liquid milk are at present bearing in respect of manufacturing milk, and have expressed the view that it is undesirable that consumers of a food so important to the health of the younger generation as fresh milk should continue to carry any part of the loss resulting from the sale of milk which is surplus to the needs of the liquid milk market and its reserve. It was indicated in that Chapter that there are two ways in which consumers might be relieved of this burden, but that one of them—the reduction of the total output of milk to the level representing the requirements of the liquid milk market and its reserve—was so inexpedient as to be virtually impracticable. The alternative is to secure from some other source the funds needed to make up the difference between the price to be paid to the producer and the price realised for the surplus. Since the chief objects of maintaining the present level of production would be to ensure a sufficient supply for an expanding liquid milk market and also to secure the best use of agricultural resources, it is reasonable in our view that the cost should be borne by the State.

In order to ascertain what sum would be required for this purpose, it is necessary to decide, first, how much of the milk in excess of actual liquid milk supplies to the ordinary market can properly be regarded as a necessary reserve and how much is to be considered strictly as surplus; and secondly, at what rate the ordinary liquid milk market can fairly be charged for loss in the disposal of the reserve.

The reserve for the liquid milk market.—The size of the reserve obviously depends partly upon the volume of supplies actually absorbed into the liquid milk market, which can be ascertained from statistics of the milk marketing Boards. But it is more uncertain what proportion the reserve should bear to normal requirements.

There are several ways in which the problem of estimating the proportion of the reserve required by the ordinary liquid milk market might be approached. The English Board, in the recent proceedings before the Committee of Investigation for England and Wales, suggested that a minimum safety margin of 10 per cent. is needed in each month of the normal year and that, owing to the present rate of seasonal variation, this entails higher margins in the summer months, rising to a maximum of 46 per cent. in the peak month. On these estimates the average reserve would amount to some 23 per cent. of the actual liquid milk sales.

The basic figure of 10 per cent. for the safety margin in the month of lowest production must be a matter of opinion based on experience. But if this is accepted, it is still possible that the figure of 23 per cent. for the annual average may be on the high side. It is understood that, in arriving at the figure for the summer maximum, the English Board had regard to the existing relationship between the levels of winter and summer production throughout the whole of England and Wales. In general, however, the output of those producers who are actually supplying the liquid milk market tends to be more level than that of producers as a whole, and consequently it is possible that, even with the present degrees of seasonality of production, the maximum of 46 per cent. in the peak month is too high a figure to use in this connection.

We have accordingly examined some alternative methods of calculating the reserve. If, instead of basing the estimate of seasonal increase of production upon the statistics of monthly output for the whole of England and Wales, the figures for the four regions surrounding London are taken (these being the regions with the least seasonal variation) a rather lower figure is obtained for the average reserve; and if the figures for the South Eastern region only are taken, the reserve is less again. While it is clear that the average reserve is dependent upon the degree of seasonality of production, it may perhaps be accepted for purposes of calculation that, under existing conditions, the reserve for the liquid milk market, over the year, should be regarded as approximately 20 per cent.

It is sometimes suggested that, in estimating the amount of the reserve needed, account should be taken of the requirements of the cream market as well as of the liquid milk market. It is understood to have been the practice of many distributors in pre-scheme days to regard their supplies for the liquid market and their

supplies for the manufacture of cream as a whole for the purpose of " balancing " their daily requirements, and thus to treat their cream milk as a reserve for their liquid milk supply. If this practice were generally adopted, and if there were no further reserve for the combined liquid milk and cream milk supply, then it would clearly be necessary to refuse orders for cream upon occasion so as to be able to supply the full requirements of the liquid milk market. If, however, consumers and distributors were prepared to put up with this inconvenience, it would be possible to reduce very considerably the volume of the reserve for the liquid milk market.

Even in that case, however, some further reserve would still be needed, because the volume of milk used in the manufacture of fresh cream amounts to less than 10 per cent. of the liquid milk requirements, and this would not be adequate as a reserve throughout the year. But if the cream milk supply were looked upon as part of the reserve for the liquid milk market, the consumer of liquid milk should be responsible for bearing any loss on the disposal of cream milk as well as any loss on the disposal for manufacturing purposes of whatever supplementary reserve were thought necessary.

There are some further factors that should, in principle, be taken into account in computing the loss in disposing of the reserve for the liquid milk market. In the first place, the price at present paid to producers represents, broadly, the price that is necessary to secure the present output. But if, under present circumstances, there were no surplus above the requirements of the liquid milk market and its reserve, the volume of output would be reduced by approximately 20 per cent., and somewhat lower prices to producers would probably secure the supply of that quantity to consuming markets.

Secondly, the average realisation value of milk not absorbed into the liquid milk market is lower than it would be if there were no surplus beyond the requirements of the liquid milk market and its reserve. If the only milk that had to be sold for manufacturing purposes were the reserve for the liquid milk market, nearly one-half of it would be required for the manufacture of cream, so that a much smaller proportion than at present would remain to be sold at descending prices for the manufacture of condensed milk and other commodities returning lower realisation values.

For both of these reasons the disparity between the prices of liquid and manufacturing milk tends to become greater as the proportion of the surplus increases. It would be necessary to take these factors into careful consideration if it were desired to make an exact computation of the burden at present borne by consumers in the disposal of that part of the total production which is in excess of the requirements of the liquid milk market and its reserve. We think, however, that it will never be practicable to provide that the consumer of liquid milk shall bear the precise

amount of loss related to the reserve and neither more nor less. For present purposes, therefore, we have assumed that the reserve for the liquid milk market may be taken to be 20 per cent. of the liquid milk market's requirements throughout the year and the remainder regarded as surplus. Further, we suggest that in computing the loss on this surplus it will be sufficient to have regard to the average prices paid to producers over the whole range of production and to the average prices received for manufacturing milk.

The cost of assistance.—For the year 1934-35 the quantity of milk sold through the four Boards operating in Great Britain amounted to 1,107 million gallons, which may be divided as follows :—

	Million gallons.
Sales into the liquid milk market	746
Reserve for liquid milk market (assumed to be 20 per cent.)	149
Surplus milk for manufacture	212
	1,107

The weighted averages of the prices paid to producers and of the prices received for manufacturing milk in that year were, respectively, 11·86d. per gallon and 4·81d.* per gallon. The deficiency to be made up on account of the low average price received for manufacturing milk is not as great, however, as the difference between these two figures would suggest. A part of the deficiency is made up by the income derived from the systems of transport charges operating under the two main schemes. In England and Wales a part of the pool funds is derived from the Board's transport deductions in respect of manufacturing milk; and in the main Scottish area profits on the haulage fund are paid into the general pool. If allowance were made for these elements in the pool funds, the deficiency to be met on account of the low prices of manufacturing milk would have amounted to some 5½d. per gallon. On the basis of these figures the loss in disposing of the necessary reserve would be represented by the sum of about £3½ million, and the loss in disposing of the surplus would amount to some £5 million. To put the matter in another way, in order to have paid the producer 11·86d. per gallon on the manufacturing milk in excess of the assumed safety margin, without imposing any burden on liquid milk prices, it would have been necessary to secure from outside sources an annual sum of slightly more than 5½d. per gallon on each of 212 million gallons, and a total amount of about £5 million would have been required for this purpose.

The Government is already contributing, under the Milk Acts, to assist the returns to producers from the sale of manufacturing milk, though some part, or even the whole, of the contributions

* Excluding Government advances under the Milk Act.

from State funds will become repayable if the wholesale prices for imported cheese advance sufficiently during the course of the next few years. For the milk year 1934-35 the Government's contribution to the Boards in Great Britain for this purpose was £1¼ million. If, therefore, the Government had borne the whole burden of the loss in respect of surplus milk, an additional contribution of the order of £3¾ million would have been required. This would have been equivalent to a reduction of 1·2d. per gallon in the retail price of liquid milk.

It does not follow, however, that a sum of this magnitude would be required in future years. Any improvement in the prices of milk products would reduce the difference between the value of manufacturing milk and the price at present paid to producers. Further, it is to be expected that if this sum were used to reduce ordinary liquid milk prices, there would be some expansion of milk consumption which would reduce the volume of surplus milk. If, in addition, as much as possible of the remaining surplus were diverted from manufacture to sale for liquid consumption at differential prices, two further advantages might follow: first, the returns from the sale of that part might be increased to some extent; and secondly, the average value of manufacturing milk might be raised by reducing the quantity that had to be sold at the lowest level of manufacturing prices. Provided that production did not increase (or at all events did not increase as much as the demand for liquid milk) these factors might be expected to reduce the annual sum required by way of subsidy. On the other hand, it is possible that some of the milk now used on the farm for butter making or stock feeding may be sold in future years, and this might increase the amount of the surplus. Moreover, if the level of producers' returns were either raised or lowered, that would obviously affect the difference between producers' prices and surplus milk prices and thus would affect the amount of the contribution per gallon required in respect of surplus milk. On the whole, however, it seems probable that, if production remained at about the present level, the sum needed to subsidise surplus milk would be less in each succeeding year.

(ii) Subsidised Milk for Selected Classes of Consumers.

The relief of the liquid milk market from any burden in respect of the surplus should result in some decrease in both wholesale and retail prices, but the amount of the reduction due to this cause alone could hardly amount to more than an average of 1d. or 2d. per gallon over the year. Further reductions consequent upon economies in production and distribution may take some time to effect, but even if it were practicable to look for an early saving of as much as 2d. or 3d. per gallon, that would only be sufficient to enable prices to be lowered by 4d. per gallon, or 1d. per quart, throughout the year.

It is not, we think, to be expected that a price reduction of this magnitude would of itself lead to an immediate and substantial increase in the consumption of liquid milk on the part of those who need it most. If a real effort is to be made to expand consumption among certain classes of consumers, we believe it will be necessary to make special provision for the sale of milk in certain circumstances at much lower prices. To some extent the position might be met if arrangements could be made for radical changes in distributive practice. If, for example, consumers could be induced in sufficiently large numbers to collect supplies from central retail depots, an appreciable reduction in the price of milk so fetched might become possible. Some suggestions for experiments of this kind are offered later in Chapter 29. But we think it will be necessary also to make a special reduction in the wholesale price of milk supplied to certain classes if their consumption is to be expanded to any large extent in the early future.

We do not wish at this stage to make definite suggestions as to the classes or groups of the population to which cheap milk might be made available. But for the purpose of indicating the amount of assistance that could be afforded by a given outlay, we have thought it well to make some general observations and to set out some calculations based on certain hypotheses.

If any reduction in price were made to any particular class, the reduction would have to be applicable to the whole of the future consumption by that class, and not merely to the increase in consumption arising from the reduction in the retail price.* It is true that the poorer classes of the community purchase, per head, relatively little milk; but it is equally true that a considerable reduction in price would be required if consumption were to be stimulated greatly. While we have no data on this matter to guide us, we doubt whether, if it were possible to reduce the retail price to certain of the poorer classes by one-half, the consumption of milk by those classes would be doubled. In other words, a housewife of the working classes who spends, say, 1s. a week at present on milk would probably not spend so much as 1s. if the price were halved: she would be content with less than double the quantity which she at present purchases, and the remainder of the 1s. would be spent in other directions. We have assumed in the illustration given below that, as a result of halving (approximately) the retail price to certain classes of consumers, the consumption of those classes would be increased by 50 per cent. We have also assumed that, by reason of this increased consumption and other factors, it would be possible to reduce the distributive margin in connection with those particular supplies from its present level of about 10½d. to 8d.

* For example, when the present plans for cheap milk for school children came into operation, all the children taking milk at school, including those who had previously paid 1d. per bottle, were permitted to obtain it at the lower price of ½d. per bottle.

The average wholesale price of milk in Great Britain in 1935 may be taken at 15d., and on adding to this sum the distributors' margin of, say, 10½d. an average retail price is arrived at of 25½d. per gallon. Let it be assumed that a person of the selected classes who formerly purchased one gallon of milk at 25½d. is induced by a reduction in price to 1s. per gallon to purchase a further half-gallon of milk which previously had been sold in the manufacturing market for, say, 2½d. The following is then the position, so far as the returns to producers are concerned, before and after the change :—

Before the change.	*Amount paid by consumer or manufacturer.*	*Distributor's margin.*	*Amount received by producers.*
One gallon ...	25½d.	10½d.	15d.
half gallon ...	2½d. (for manufacture)	—	2½d.
Total	... ...	... ...	17½d.
= per gallon ...	... ...	... ...	11⅔d.
After the change.			
One gallon ...	12d.	8d.	4d.
half gallon ...	6d.	4d.	2d.
Total	18d.	12d.	6d.
= per gallon ...	12d.	8d.	4d.

On the assumptions on which the foregoing calculation is made, therefore, a subsidy of 7⅔d. per gallon (the difference between 11⅔d. and 4d.) would be required in order that producers should not suffer from the change. For the sake of convenience, we propose to use the figure of 8d. per gallon.

It has been estimated* that the 10 per cent. of the population (4½ million persons) with the lowest incomes at present consume about 1·1 pints of milk per person per week, or some 32 million gallons per annum. If these persons were enabled to buy milk retail at 1s. per gallon and in consequence increased their consumption by 50 per cent., the enlarged consumption would amount to 48 million gallons per annum. A subsidy of 8d. a gallon on 48 million gallons equals £1,600,000.

It is desirable to repeat that these tentative figures are mentioned for the sole purpose of giving a broad indication of the financial aspect of suggestions which have from time to time been put forward that there should be State-assisted prices to those sections of the community whose incomes are low and whose consumption of milk per head is also low. In considering the amount of the assistance it should be borne in mind that the increased

* By the Market Supply Committee. See "Food, Health and Income" by Sir John Boyd Orr. Macmillan & Co., price 2*s.* 6*d.*

consumption by the assisted sections of the population would decrease the volume of milk going to manufacture, and that, under favourable conditions, a system of differential prices may reduce the total amount of subsidy required in order to make good the loss on the disposal of surplus. We are aware that some special groups are already receiving supplies at cheap rates; and we do not suggest that it is practicable or desirable to deal with a large section of the population on lines which would primarily involve a " means test ". It might be found, for example, after careful inquiry that the whole of the money which the Government might be willing to make available for price relief to certain classes could best be used in supplying milk to children, or in making cheap milk available to all those in specially selected areas who cared to fetch it. Decisions as to the methods of spending any funds provided should be entrusted to a permanent and disinterested body capable of initiating experiments, of maintaining constant touch with the operation of plans and of modifying these as experience dictated.

(iii) General

It is not for us to suggest what sum the Government might be justified in expending annually upon measures designed directly or indirectly to increase the consumption of liquid milk. But the past policy of the Government, coupled with the fact that the liquid milk market is suffering from the effects of the low prices of imported milk products (which are not always economic from the point of view of the producer abroad) suggests that the minimum amount of annual assistance from the Government might fairly be fixed at a figure which would take into account two factors: first, the amount of the present provision under the Milk Acts; and secondly, the sum that might be raised by moderate increases in the duties on imported milk products.

The assistance at present provided by the Government (for Great Britain and Northern Ireland) amounts to some £2 million (made up of £1½ million for manufacturing milk and £½ million for Milk-in-Schools, publicity generally and herd improvement); and a moderate levy on imported milk products (see page 169) would probably raise about £4 million: so that these together would make a total of some £6 million. The question whether the money should in fact be obtained through import levies or in any other way must depend upon Government policy; and the further question whether assistance should be provided over and above the level indicated by these figures is almost entirely a matter of social policy. It is not within our province to make specific recommendations on either of these subjects.

We wish to emphasise that we look upon the relief that would be afforded by the two services we have suggested as being relief, primarily and essentially, to the consuming public. As matters stand, there seems to be no quick and easy method of getting entirely rid of the burden of the manufacturing surplus; and for the reasons

we have given, it might be short-sighted from the public standpoint to attempt to do so, apart from the hardship that would be inflicted on agriculture. At the same time there is a strong case on social grounds for the supply of cheap milk to certain selected classes of consumers. In both cases the only practical alternatives seem to be that either the State or liquid milk consumers should meet the cost. Our reasons for urging that liquid milk consumers should not be expected to meet it are, first, that it is inequitable, for the effect would be to tax the consumers of an important foodstuff in order to promote policies for which the State as a whole should be responsible; and, secondly, that it is contrary to the national interest, in that it must tend to discourage milk consumption.

The changes we propose should, however, as we intend, prove advantageous to the milk industry as well as to consumers, in so far as they would stimulate in the most direct manner possible the demand for liquid milk.

CHAPTER 24.—PRODUCERS' PRICES.

(i) General.

The basis of determination.—The recommendations that we make regarding producers' prices all hinge on the proposal that these prices should be fixed at a level designed to secure the production of whatever volume of milk is required.* Producers' prices will thus be determined in relation to a definite and planned production policy.

The first matter to be determined will be the total quantity of milk required. This will consist of :—

(*a*) the estimated requirements of the ordinary liquid milk market at the price decided upon for that market;

(*b*) the estimated quantity to be sold at " assisted prices " to special classes of consumers;

(*c*) the reserve necessary to ensure that the full requirements of the whole liquid market are available; and

(*d*) any quantity, additional to the reserve, that may be required to be produced specifically for manufacture.

The amount of financial assistance available from State funds should in principle determine, and must in any case influence, the second and the last of these items and must thus influence the other items also. The total quantity of milk required might be larger than the quantity at present produced if liquid milk sales increased considerably among consumers paying the ordinary price, or among the selected classes receiving subsidised milk, or if it were decided to expand manufacture. In any case, for the reasons given on

* The question of equating the income of the fund from which producers will receive these prices for all the milk they sell, with the outgoings from the fund, is considered in the next Chapter.

page 197, we do not think that there should be any immediate material reduction below the present level of supplies.

The total quantity of milk required for these different purposes will determine the level of the prices payable to producers, for the aim will be to fix prices which will secure the production of that quantity. The general price level will, however, be subject to the regional, seasonal and other variations discussed in subsequent paragraphs.

Prices fixed in advance.—The determination of producers' prices at a level which is designed to secure the production of the quantity of milk required will mean that these prices can be fixed in advance instead of being calculated each month after the milk has been sold, as under the arrangements now operating throughout Great Britain. We recommend that producers' prices should be fixed in advance for a contract period of 12 months, so that each producer will know beforehand the price that he will receive for his milk. This will remove the objection that producers do not know what their returns will be until after the milk has been produced and sold. It will enable producers to plan their farming operations with a greater degree of certainty and will avoid false expectations as to the level of their returns.

(ii) Regional, Seasonal and other Variations in Producers' Prices.

For the reasons explained in Chapter 15, we think there should be some measure of differentiation between the levels of returns to different classes of producers and that the basis of differentiation should depend upon the factors which are considered in the following paragraphs.

Regional variations.— In the first place it will be desirable, for some years at all events, to make provision for variations in price according to regions. In England and Wales the existing regions were delineated with reference mainly to production and marketing conditions, and these should continue to furnish generally a suitable basis of differentiation. Our proposals for extending the same principle to Scotland are contained in Chapter 27.

We suggest that, at the outset, producers' regional prices should be so fixed as to avoid causing undue disturbance in the relative levels of output of the different regions. The information that is already in the possession of the Boards as to the prices that have been paid to producers and the quantities of milk which these prices have drawn into the market during the last two or three years will afford the data on which producers' regional prices will first be assessed. It will, however, be necessary to interpret these data in the light of all the circumstances. If, for example, it appeared that in any of the regions the returns received by producers under the schemes would, if continued, cause an expansion or contraction of production more rapid than was desired, then, even in

the first year, producers' prices for that region might have to be lowered or raised.

Individual and sectional interests should not, however, be allowed to stand permanently in the way of improvements in production efficiency. Over the long period there should be a gradual and controlled adjustment of production in order to secure that an increasing proportion of the total output of milk is produced in those areas which are best suited for the purpose. With this object in view, producers' regional prices would be altered, if need be, from year to year in order to bring about any changes in the balance of production that seemed desirable.

Although variations in regional prices will no doubt be necessary for some years in order to prevent undue disturbance to established agricultural conditions, the aim will be to move gradually towards uniformity of producers' prices throughout a scheme area. It should be borne in mind, however, that these prices would be producers' gross prices and that transport charges assessed in accordance with the principles which are described later in this Chapter would have to be deducted in reaching net farm prices. Net prices, therefore, would still vary between individual producers.

In the same way the ultimate aim should be to secure a suitable balance between producers' prices in England and Wales and in Scotland, for any permanent preference afforded to either would involve the same kind of special local protection as permanent inter-regional price differences. If, however, there were any appreciable difference in the average transport charges payable in England and Wales and in Scotland, this would need to be taken into account in determining the general levels of prices in those two parts of Great Britain.

Seasonal variations in producers' prices.—The same general principle would also govern the variations in producers' prices for different months of the year. In other words, producers' prices would be the means of maintaining not only the desired balance of production between regions, but also the desired balance of production between different seasons. The producers' price, therefore, while fixed for a year in advance, should not be uniform throughout the year, but should be varied from month to month so as to induce such seasonal incidence of supplies as may be desired. If, for example, it were thought best, having regard to all the factors, to aim at relatively level production throughout the year, then relatively wide seasonal price variations would be required. If, on the other hand, it seemed desirable to plan for considerable seasonality of production, that would involve less seasonal variation in price.

We recommend, further, that seasonal variations in prices should not necessarily be the same for all the regions. It may well be desirable to promote more seasonal production in some regions than in others, and under the price structure we propose it would be possible to do this.

Special service premiums.—We have considered whether any further general provision should be made to induce level production or level delivery, over and above that which is implicit in seasonal variations in price. The price system which we have described already provides for seasonal variations in price which can be adjusted to secure whatever degree of levelness or seasonality of output may be required. We have come to the conclusion, therefore, that the payment of premiums for level delivery or level production out of the general funds available for distribution among producers is neither necessary nor desirable.

We do not intend, however, that there should be any departure from the system of paying premiums for special individual services, such as the delivery of level quantities, delivery at stated times or delivery twice daily. If a buyer requires services such as these, it is only reasonable that he should make some additional payment for them. The amount of the level delivery premium and the conditions of payment should be set out in the contract; but the amounts and conditions of other premiums must vary according to circumstances and should be left to individual negotiation.

In the ordinary way, premiums paid for special services should be credited to the producers giving those services over and above their ordinary regional prices. But while the prescribed level delivery premiums should be payable by all buyers requiring that service, they should accrue to the individual producer concerned only if he bears the cost of giving the service. If he does his " balancing " by selling the remainder of his output through the Board on an ordinary contract, any level delivery premiums paid in respect of part of his output should accrue to the Board.

Quality bonuses.—In order to encourage improvement in the general standard of quality of the milk supply, a financial reward should be offered to producers of high quality milk. We accordingly recommend that bonuses should be payable to all producers in respect of milk, sold through the Boards*, which reaches specified standards of quality. These bonuses should be payable at suitable differential rates on the officially recognised grades of milk. It will be possible to adjust the amount of the bonus on each of these grades in such a way as to induce a reasonable rate of progress in the improvement of the general standard of quality of the supply.

Part of the funds needed for this purpose will be secured from the higher prices obtainable for certain grades of milk. It is intended, however, that all producers of high quality milk shall be rewarded, whether or not their output can be sold at the higher prices. Any additional sum received for milk on account of its special grade should accordingly go into the funds of the Board concerned, and the payment to producers in respect of high quality production should consist solely of the quality bonuses. It follows that a Board will be interested to ensure that graded milk should,

* The special case of producer-retailers is dealt with later in this Chapter.

as far as possible, be sold as such at the appropriate price ; and that it will not approve a contract for the sale of graded milk at ordinary milk prices if it is possible to sell it elsewhere at the higher prices. Further, it is to be hoped that the public health authorities, the medical profession and the distributive trade will encourage the demand for milk of the higher grades at appropriate prices.

A large part of the cost of paying bonuses on the higher grades of milk should be secured through higher prices obtainable for those grades. As regards the balance, the general principle that should be adopted is, we think, that of the Accredited Producers' Roll now operating in England and Wales ; that is to say, the funds required should be obtained through a charge levied on all milk sold under the schemes. As a matter of convenience, however, we propose that there should not be a specific deduction from the producers' prices, but that the necessary allowance for the sum required to pay the quality bonuses should be made in determining the level of those prices at the beginning of each contract year. The effect will be that producers' prices will be fixed at different levels for the various grades, and the amount of differentiation will depend upon the rapidity with which it is practicable to induce a transference of production from low grades to higher grades of milk.

The butter-fat content of milk is also of importance, particularly in manufacture, and it was often the practice in pre-scheme days for manufacturers to buy their milk at prices related directly to its butter-fat content. It has been suggested to us that bonuses should be paid to producers on milk rich in butter-fat. In principle we agree that this aspect of quality should also be recognised by some form of price differential ; but under present conditions it would hardly be practicable to arrange for an independent test of every direct delivery to individual retailers ; and unless a system of bonuses or deductions were of general application it would not operate fairly upon producers. However desirable such a system may be, we do not believe that it could be satisfactorily applied to producers of liquid milk as well as of manufacturing milk until there has been a radical reform of the present methods of assembly and wholesale distribution.

(iii) Transport Charges.

We have shown in Chapter 19 our reasons for thinking that transport charges should continue to be borne by producers and that it should be possible for the Boards to reduce the total costs of transport by re-arranging contracts in such a way as to eliminate unnecessary travelling. We have also expressed in that Chapter our opinion that a system of pooled returns from the sale of milk needs to be supplemented by a system of pooled transport charges in order to secure equitable treatment to individual producers. The conclusion reached there was that pooling on a zonal basis offers the most practicable method of maintaining the proximity values which, under competitive conditions, accrued to producers situated favourably to consuming centres.

We accordingly recommend that the Boards should make themselves responsible, in the first instance, for the payment of all transport charges and should use their position to reduce transport costs as far as possible; and further, that they should recover the total sum spent on transport by deductions from the prices paid to producers, the deductions from individual producers being assessed on a zonal basis.

Zonal transport charges.—The simplest form of zoning plan would probably be one based upon a series of rings surrounding the main centres of consumption. Circles would be drawn around London and certain other large towns, thus dividing the country into a number of ring-shaped zones. All producers within any one of these zones would be required to pay the transport charge fixed for that zone, regardless of the actual destination of their milk. The map given in Appendix IV has been prepared merely to illustrate this simple form of zoning.

It would, however, be possible to modify the application of the general principle of zoning in many different ways. Thus, for example, instead of specified towns, areas of dense population might be taken as the " centres " of zones, in which case, of course, the zones would not be circular rings, but would correspond in shape to the shape of the densely populated area; or zones might be determined according to distance by road or rail, and not by distance as the crow flies, from whatever centres were selected. Further, it might be thought desirable to take into account a number of other considerations in addition to the population factor, such as the density of milk production, or the rate of milk consumption in the nearest towns. This might be done by classifying consuming centres into categories and fixing the zones and transport charges for those categories on bases which would differ according to their circumstances.

The precise nature of the zoning plan, provided that it followed the general principles indicated, would be relatively a matter of detail. While we consider that simple zoning systems for both England and Wales and Scotland would give reasonable differentiation between individual producers in the matter of proximity values, it should be a matter for the Boards themselves to decide whether simple or more elaborate systems should be adopted.

(iv) Administrative Expenses.

On the principles which we have outlined above, the price received in any month by a producer selling under contract will no longer be related to the monthly level of selling prices or to the quantities of milk actually sold for liquid consumption and manufacture in that month. It will be a firm price, subject to no deduction except for transport. There will be no deduction comparable to that which, under the two main schemes, is now made from liquid milk prices

for the purpose of equalising returns from liquid milk and manufacturing milk and which constitutes the bulk of what is now known in England and Wales as the " Board's levy ".

It will, of course, be necessary to make provision for the administrative expenses of the Boards, and we propose that allowance should be made for this item *before* arriving at the amounts which will be published as the prices payable to producers. Those prices will thus be " net ", except for the transport charges assessed on the basis suggested in the preceding paragraphs.

It is, however, a matter of importance that producers should be encouraged to interest themselves in all aspects of their Board's work, including the costs of administration. For that reason we propose that the statements of accounts sent to producers should show clearly the amount of the deduction made in respect of administrative costs before arriving at the producers' price. In the case of producers not selling through the Boards, their share of the Boards' expenses will be included in their contributions, which are paid direct. It has already been mentioned that the actual administrative expenses of the English and main Scottish Boards have both worked out at about one-tenth of a penny per gallon, and those of the two smaller Boards at an amount which, though rather larger, is still a small fraction of a penny.

(v) The Position of Special Classes of Producers.

Producer-retailers.—Producer-retailers do not participate in certain of the services rendered by the Boards to wholesale producers; but in other respects their special position makes additional demands upon, and causes additional expense to, the Boards. It would be impracticable to differentiate between the amount of the administrative levy to be charged to producer-retailers and the amount to be charged to other producers by reference to the actual services of the Boards to each class; and in any case the fraction of the levy due to administrative expenses will be very small. We propose, therefore, that the costs of administration should be spread evenly over all registered producers at a flat rate on each gallon of milk sold. The question of transport charges does not arise with producer-retailers in their capacity as such.

We have already expressed our opinion that producer-retailers should bear their share in the costs of maintaining stable prices in the liquid milk market. Under our proposals wholesale liquid milk prices will include a sum representing the cost of disposing of the reserve, and this will be reflected in the level of retail prices. The cost of maintaining the reserve will thus fall directly on retail prices, as indeed it should. But it would clearly be inequitable if producer-retailers were able to obtain the current retail prices, including this sum for the maintenance of the reserve, without contributing a fair allocation from those prices towards covering the loss on the reserve. The contribution made in respect of liquid milk sold under wholesale contract will not be made

directly by producers, but will be a calculated amount per gallon which will be taken into account in fixing producers' prices. For the reasons explained in Chapter 16, we consider that the contribution towards the cost of maintaining the reserve which should be made by producer-retailers per gallon of their retail sales should be at a somewhat lower rate; and further, that producer-retailers who bear the cost of disposing of their surpluses should pay at a lower rate than those who sell their surpluses through the Board on open contracts. We recommend that the maximum rate of the contribution to be paid in this respect by producer-retailers on their retail sales (which will be the rate applicable to the last-mentioned group) should be seven-eighths of the calculated amount referred to above; and that the contribution of producer-retailers who sell only by retail, or only by retail and on wholesale contracts carrying level delivery premiums, should be reduced by the amount of the normal level delivery premium.

As we have stated, we consider that all producers selling through the Boards should be paid fixed quality premiums on sales of graded milks, regardless of the price that is actually paid by the buyer. It is, of course, just as important to encourage a high standard of production among producer-retailers as among other producers. The payment of quality premiums to them in respect of the highest grades of milk would present some difficulty, however, in that it would be impracticable to distinguish between those who had been able to obtain a premium in the price received from the consumer and those who had not. With wholesale producers it is not the intention that the individual whose high-grade milk is sold at a premium should receive both the price premium in the open market and the quality bonus.

No difficulty arises in this respect with Accredited (or Grade "A") milk, because no price premium is usually obtainable on this milk in the open market. We recommend, therefore, that producer-retailers of Accredited milk should receive the bonus payable on that grade. Milk of higher grades would naturally also qualify for this bonus. We think it will be impracticable, however, to include producer-retailers in the arrangements made for the payment of larger bonuses on the higher grades. This may involve some inequality if some producer-retailers are able to obtain higher prices than others from their customers for their high-grade milk; but it will, of course, always be open to a producer-retailer producing the higher grades to sell through the Board and to obtain the full premium if it pays him better to do so.

The arrangement we recommend is, therefore, that all producer-retailers whose milk is of Accredited or higher standard should receive, in respect of milk retailed by them, the quality bonus appropriate to Accredited milk, but not the additional bonus payable on milk of higher grades. It follows that the levies paid by producer-retailers should include contributions towards the payment of quality bonuses, but at a rate calculated by reference to the

sum required to pay Accredited milk bonuses, not the sum needed to pay bonuses on the higher grades of milk also.

In practice it will be convenient to fix a round sum, approximately equivalent to the total of these three levies (i.e., the levy for expenses, the appropriate levy in respect of the reserve and the levy in respect of quality bonus) as the maximum contribution from producer-retailers. We recommend that this contribution, like producers' prices, should be fixed for a year in advance. For the sake of simplicity, however, it will be desirable to avoid both monthly and regional variations. These contributions should, therefore, be fixed at a flat rate for the whole of the ensuing contract year, any necessary changes in the rate being effected from year to year.

Under this system producer-retailers will know in advance the maximum amount which they can be called upon to contribute in respect of their retail sales. Those who sell partly on open contracts and who are not entitled to quality bonuses will pay at this maximum rate. Those who do not sell milk by wholesale except on level delivery contracts and those who qualify for quality bonuses will be entitled to the appropriate reductions from the maximum contribution. It is important to note that if, as we intend, the liquid milk market is called upon to bear only the loss in disposing of the reserve to that market, and not the loss on any excess output, even the maximum rate of contribution for producer-retailers, as calculated on the basis recommended, is likely to be considerably lower, at least in England and Wales, than their present average rate of contribution.

As regards their wholesale sales, we recommend that producer-retailers should be treated equally with all other producers; that is to say, any level delivery premiums paid by their buyers should accrue to them only if the whole of their wholesale sales are made on level delivery terms.

Producer-wholesalers.—The special category of producer-wholesalers exists only under the main Scottish scheme, though provision was made for this class of producers under the North of Scotland scheme also. We think it undesirable that the price payable to a producer should be dependent upon the size of the business of his buyer, and we propose, therefore, that provision should not be made for the continuation of producer-wholesalers as a separate class.

Farm cheese makers and farm butter makers.—We recommend that the Boards should continue to make provision for farm cheese makers with the object of ensuring that they receive for their milk the approximate equivalent of the average net price payable in their region to producers who sell milk. They should also be entitled to obtain the Accredited (or Grade " A ") bonus on the

same terms as producer-retailers, but not the larger bonuses payable on the higher grades of milk, which should all be absorbed into the liquid market.

In principle producers who keep their milk on the farm for butter manufacture should be given similar assistance. Furthermore the encouragement of farm butter making would help to relieve the Boards of a certain quantity of manufacturing milk and would also leave skim milk for use on the farm. Unfortunately, farm butter manufacture is usually conducted on a comparatively small scale, and for this reason any scheme for assisting farm butter making would meet with administrative difficulties. Moreover the quality of the product varies considerably. Unless the Boards could ensure that the butter produced was of a good standard and could find a satisfactory but inexpensive method of administering a plan, it might prove even less economical to pay producers to keep milk on the farm for butter making than to sell it to the creameries and factories. It may be noted also that, if arrangements were made to secure the return of by-products from creameries and factories, one great advantage of encouraging farm manufacture—the availability of by-products for use in other branches of production—would be secured.

(vi) Effects of the Proposed System.

If the proposals set out above are adopted, the effect will be that every producer will know before the beginning of each contract period exactly what monthly prices he will be paid for his milk and will be able to plan his farming economy accordingly. The sum to be paid per gallon will vary from region to region; and the price fixed for any region will be the price at which, according to the best estimates that can be made, producers in that region will be able and willing to supply the quantity required from the region. It will not be, and could not be, a price which will satisfy every potential producer. But each one will be able to decide for himself in advance whether it will pay him to enter or to continue milk production. No one will be forced out of business by the unexpected pressure on returns of increasing supplies from elsewhere.

The price per gallon will also vary from month to month so as to ensure the necessary supplies at all times of the year. Further, the net returns to individual producers will be affected by their transport deductions, which will be assessed in a way that will give recognition to the distance of individual producers' farms from the main centres of consumption. The price received by a producer will not depend, however, either directly or indirectly upon the purpose for which the milk is used. Nor will it be affected, as it is now in England and Wales, by the presence or absence of either factories or liquid milk depots in any particular region.

At the same time the difficulties and dangers associated with the restriction of individual output will be obviated. Though it

is proposed, through the regional and seasonal differences in price levels, to avoid hardship to any particular class of producer, the principle of the plan is that producers' prices should be fixed with reference to the quantity of milk required and consequently that the volume of production should be controlled by price alone.

One of the chief merits of these proposals is, in our opinion, that they will provide for the planned control of production as a whole, and also of regional and seasonal variations in production, through the operation of the price factor. It may be objected that the system will not work equitably if other branches of agriculture are relatively depressed, since there will be a tendency for producers to turn to milk even if the level of returns is insufficient to remunerate them adequately for their labour, management and enterprise; and consequently that the quantity of milk needed may be obtainable at prices that are not, in fact, remunerative. We think, however, that it would be unreasonable to attempt to hold milk production at an undue level of profit, or to fix milk prices which would, in effect, enable milk production to support other branches of agriculture. If some other branches of agriculture are so depressed as to cause producers to choose milk production, even at an unremunerative level of returns, merely because it is less unremunerative than other forms of production, then the proper course is to take direct steps to improve the position in those other branches of agriculture. While the tendency in recent years has been for farmers to turn over to milk production, it is obvious that, if conditions in other branches of agriculture improve, dairy farming will become a relatively less attractive form of agricultural enterprise; and in that event it may well become necessary to pay higher prices to secure the quantity of milk then required.

CHAPTER 25.—WHOLESALE AND RETAIL BUYING PRICES.

Under our proposals for the fixation in advance of the prices to be paid to milk producers, the total commitments in respect of the milk sold by producers during any year will be determined by the quantity of milk sold by, and the prices payable to, them. It will, of course, be necessary that the income of the fund from which these prices are to be paid shall, over a series of years (though not necessarily in each single year), be sufficient to meet those commitments.

(i) Wholesale Liquid Milk Prices.

If funds are provided by the Government sufficient to relieve the liquid milk market of the whole of the burden of manufacturing milk in excess of the liquid reserve and also to finance the policy of low-priced milk for special classes of consumers, then the market for milk may be regarded as falling into three separate parts namely:—

(*a*) the ordinary liquid milk market and its reserve;

(*b*) the market for " assisted price " liquid milk; and

(*c*) the market for manufacturing milk which is surplus to (*a*) and (*b*).

In principle each of these markets should be considered separately from the point of view of income and expenditure. The quantity of milk to be produced for sale at assisted prices should be no more than could be financed out of the grant made for that purpose. The quantity of manufacturing milk (excluding the reserve to the ordinary liquid milk market) to be produced should be the number of gallons that can be subsidised (to the extent of the difference between the producers' price and the realisation price) out of the fund made available for this purpose by the Government. Consequently, if the total volume of production secured is equal to the sum of these two quantities and the quantity required for the liquid milk market and its reserve, there will be no burden on ordinary liquid milk prices from either surplus manufacturing milk or " assisted price " milk. The total receipts required from the sale of milk in the ordinary liquid milk market will be equal to the sum payable to producers for the milk actually sold in that market and its reserve, less the actual realisation value of the reserve; and the wholesale buying price of ordinary liquid milk will be assessed accordingly.

In practice, however, an exact balance will not be secured, as both the income and the outgoings must be estimated in advance and there will inevitably be some difference at the end of a year between the amounts estimated and the amounts actually received and paid.

The income will consist of :—

(*a*) any State grants made for the purposes we have mentioned;

(*b*) the proceeds from the sale of milk required for the ordinary liquid milk market;

(*c*) the proceeds from the sale at low wholesale prices of " assisted price " milk; and

(*d*) the proceeds from the sale of milk for manufacture.

The amount of the first item, namely the State grants, might be fixed for a year ahead or even for a longer period. On the other hand, the sum available from this source might conceivably vary from year to year if, for example, it were to depend on the proceeds of a levy on imported milk products.

The amount of the last item will depend on the actual quantity of milk remaining to be sold for manufacture and the prices obtainable for manufacturing milk; and the latter will continue to be determined mainly by the prices of manufactured products.

The third item of income—the proceeds from the sale of " assisted price " milk—will depend upon the numbers of persons taking advantage of the plan of assistance, their consumption per head and the price at which the milk is made available.

Broadly speaking, therefore, the adjustments that will be needed as between one year and another in order to preserve a balance between total income and expenditure will need to be made through minor modifications from year to year in the price to be charged for milk sold into the ordinary liquid milk market.

It is, however, essential to contemplate also the more important adjustments necessary if grants made by the Government were insufficient both to finance a scheme for cheapening supplies to selected classes of consumers and also to relieve the liquid milk market of the whole burden of the remaining surplus. If the grant were insufficient for these two purposes, it would seem that in equity it should be directed first to relieving ordinary liquid milk prices of the burden they now bear in respect of milk surplus to the requirements of the liquid market and its reserve. As a matter of social policy, however, it might still be desired to allocate a specific part to the cheapening of supplies to special classes, even though that might mean that ordinary consumers would not receive full relief from their present burden. Another possible course would be to reduce the total output of milk by reducing producers' prices; but we have already expressed the opinion that, for the present, the current volume of production should be substantially maintained.

Interdependence of prices.—In this outline of the manner in which the wholesale selling prices for liquid milk would be fixed, we have endeavoured to set forth as simply as possible the principles which should underlie the price structure. It is apparent, however, that there will be many points to be borne in mind in putting these principles into practice. Clearly it will not be possible for the individual items of income and expenditure to be considered in isolation, because of the repercussions of each upon the others.

In determining the ordinary wholesale price of liquid milk, for example, it will be necessary to remember that the price fixed will affect the quantity sold and will thus affect the quantity remaining to be disposed of at manufacturing prices. Some estimate will, therefore, have to be made of the effects of price changes on the demand for liquid milk. Similarly, in working out the details of any plan for the supply of milk to special classes of consumers at reduced prices, it will be necessary to have regard to the sum set aside for this purpose: for if the plan were wider in scope than could be covered by the available funds, the effect would be to raise the level of ordinary liquid milk wholesale prices, and thus of retail prices to ordinary consumers.

Need for a reserve or a guarantee fund.—Because of the conditional nature of the estimates that will have to be made, it may be desirable during the first year or two to fix the ordinary wholesale buying price of liquid milk at a level calculated to provide a reserve of income. It is unlikely that the total output of milk resulting from the producers' prices offered in any year will correspond exactly with the estimate; and it will be impossible to be precise as to the effects of price changes upon demand in the

two markets for liquid milk. As time goes on, however, it should be possible to predict the effects of changes in both producers' prices and buying prices with increasing accuracy. It is interesting to note in this connection that the English Board—and probably the other Boards also—have, in fact, been able to make very close estimates of the future levels of pool prices. If, however, the Government were prepared to guarantee any temporary overdraft, or alternatively if a satisfactory reserve had been accumulated, the position of producers would be fully secured and the possibility of a deficit on the working of a single year would not be a matter of great importance. Any reserve built up from the proceeds of sales of milk would not be available to the Boards for use as they thought fit, but would be reserved for the specific purpose of meeting any deficit that might arise in future years.

Differentiation of buying prices.—In England and Wales delivered wholesale prices for liquid milk have been uniform for all regions since the first year of the scheme. In Scotland the regional system does not at present exist in the same form as in England and Wales, but there have been differences in the levels of buying prices in the different scheme areas. Further, the prices payable under the main Scottish scheme for depot milk which goes into liquid consumption have not been subject to a deduction representing the cost of transporting that milk to consuming centres.

We recommend that the price payable by wholesale buyers of liquid milk should be a delivered price, that is, that the price payable should represent the value of the milk delivered at the centre in which it is to be consumed. It is anomalous, when distributors do not as a rule bear transport charges from producing areas to consuming centres on milk consigned direct, that they should be required to pay a part of such charges on milk required by the liquid market which is consigned through depots. If, however, producers are to pay for the transport of milk from depots, it is important that only suitably situated premises should be approved for the country assembly of liquid milk.

We recommend that there should be power to differentiate between the prescribed wholesale prices for buyers in different regions, in order to permit of a variation in the retail price as between regions near to large consuming centres and those more remote. If the prices fixed are not the same in each region or scheme area, it will probably be necessary to provide that milk passing from one region to another shall be sold either at the price appropriate to the region in which it is produced or at the price appropriate to the region to which it is consigned, whichever is the higher.

There should also be power to fix different wholesale prices to buyers for the different grades of milk. The Boards should make every effort to secure that milk of the higher grades is used for liquid consumption and not for manufacture.

Buyers who require level delivery services should, in all cases, pay to the Board the appropriate premium set out in the contract, although the premium should only be credited to the producer concerned if he, and not the Board, is in fact providing the service. Premiums for other special services should be payable on such terms as may be agreed upon by the parties in each instance.

(ii) Manufacturing Milk Prices.

It is clearly important in fixing prices for manufacturing milk to prevent the possibility of giving unfair competitive advantages to manufacturers in England and Wales or to those in Scotland. That does not necessarily mean that the prices for milk to be manufactured into any given commodity should at all times be uniform throughout Great Britain, for there may be unavoidable differences in other items of cost. We think it is essential, however, that final decisions in the fixing of these prices, or of the formulae by which they are determined, should be in the hands of one body, which should take into account all the relevant factors in relation to the whole country.

The " realisation value " system of fixing the prices of manufacturing milk meets, in principle, the needs of the manufacturing market. It is also effective in securing the maximum returns from the sale of milk not consumed in liquid form. We accordingly recommend that the present system of delivered prices fixed according to the realisation value should continue, though there are certain respects in which it might be modified with advantage.

Approximation to actual realisation values.—It is desirable that prices which are intended to be realisation prices should be closely related to the value of the particular products into which the milk is to be manufactured. If, for example, the price of milk for manufacture into butter and other commodities is related to the price of cheese, a departure from the principle of realisation values occurs which may be important in its effects on milk prices.

In general, we recommend that the principle of determining the prices to be paid for manufacturing milk on a formula basis should be adopted wherever possible and that separate formulae should be provided for different commodities, but it would obviously not be practicable for us to attempt to lay down formulae. Where the market supply of a product is mainly imported, so that the market is largely governed by the prices of imports, it will probably be necessary to continue to relate the realisation value of milk used in making that product to the price of the imported supply; but in that event special weight should be given to that portion of the imported supply which is most nearly comparable in quality and price with the home-manufactured product. With some products, however, it may become possible to fix realisation values in direct relation to the prices of home-manufactured products, or at least

to take those prices into consideration in fixing realisation values. Last year the main Scottish Board introduced a system whereby the prices of milk for butter and cheese were determined by reference to the prices realised for butter and cheese of the Board's own manufacture. This has the advantage of creating an incentive for both the Boards and competing manufacturers to strive after the maximum of efficiency; but it would not be desirable to apply the system, or even to give much weight to the prices realised by products of the Boards' own manufacture, except for commodities which are manufactured by the Boards on a large scale. Even if the formula basis is adopted as a general rule in the fixation of manufacturing milk prices, there will no doubt remain some commodities for which the milk prices will have to be fixed without reference to any formula.

As a general rule the value of milk for manufacture varies according to its butter-fat content. It would therefore be in conformity with the " realisation value " principle that, where practicable, the prices of manufacturing milk should be related to milk containing a prescribed percentage of butter-fat and that additions to and deductions from that price should be made for higher or lower percentages. There are, however, obstacles to the full application of this principle; for example, a large proportion of milk is manufactured in depots which are also supplying the liquid milk market and in which, therefore, it is difficult to distinguish the milk to be used for manufacture from that to be used for liquid consumption. If the administrative difficulties can be overcome, we think it desirable that the price of manufacturing milk should vary with its butter-fat content.

Period of fixation of prices.—At the present time some manufacturing milk prices are fixed from month to month and others for the whole of a contract period. The chief advantage of the latter practice is that it helps to ensure some stability of returns from the sale of manufacturing milk. But this stability can only be secured with fairness to all the parties concerned if the prices of the manufactured products are also relatively stable; otherwise a contract to buy over an extended period at a fixed price is, in effect, a gamble by both the manufacturer and the Board on the future level of the prices of the manufactured products. It has also been suggested to us that the publication of manufacturing milk prices for a long period in advance assists importers of milk products by informing them as to the prices at which they will be able to sell in competition with home products and that the fixation of prices at shorter intervals would reduce any disability from which the home manufacturer may suffer in this respect. A further step in the direction of securing actual realisation value prices would be taken if the prices were normally fixed for monthly periods.

Differential profits on manufacture.—It will be apparent that, with a closer approach to actual realisation values, the normal risks incidental to a manufacturer's business will be reduced, and it is

reasonable, therefore, that in allowing for the rate of profit to the manufacturer this fact should be taken into account. But it is not necessary that the realisation prices of milk for manufacture into different commodities should all be assessed to give equal rates of profit to the manufacturers. The Boards are not only concerned to see that the price of milk used in the manufacture of each particular product is as high as that product will bear; they are also concerned to ensure that as much milk as possible is used in the manufacture of products returning the highest milk prices. In order to encourage the increased manufacture of those products which return the highest prices for the milk used in them, we recommend that, in fixing prices or price formulae, it should be arranged that the price charged for milk made into such products as cream, which give the greatest return to the Boards, should also allow the greatest margin of profit to the manufacturers. It follows that the Boards must be free to direct the flow of milk in such a way as to secure the highest returns.

(iii) Retail Liquid Milk Prices.

The main questions for consideration in relation to retail milk prices, and thus to distributive margins, are whether these prices should be fixed at definite levels, or should be controlled in some measure by the fixation of minimum or maximum figures, or should be left to be determined by competition. We have discussed in Chapter 21 the general issues involved : and the recommendations made in the following paragraphs follow from the considerations there set forth.

No general control of retail prices.—We are of opinion that the experience of the last two years has shown that the advantages of fixing minimum retail prices at a level high enough to give rigid protection to the trade are outweighed by its disadvantages. Subject to the proviso that all distributors, including producer-retailers, should comply with whatever minimum conditions are thought to be necessary to protect the public health, the choice between relatively cheap milk with a simple distributive service and dearer milk with a more elaborate service should rest with consumers.

We recommend, therefore, that neither minimum, maximum nor standard retail milk prices should be fixed for the country as a whole. We believe that, as a general rule, price-cutting will not be a serious problem, since all distributors buying within any region will have to buy at the fixed wholesale prices; and, on the other hand, that the force of competition can be relied upon to prevent retail prices from rising too high. Except in certain areas, usually large towns, the distribution of milk has been a highly competitive trade. In most districts there will be found private firms, co-operative societies and producer-retailers competing for the available custom. Where this competition is a real force and

is not held in check by overt or tacit agreements, it may be relied upon to prevent retail prices from rising above a level which, under existing conditions, provides the more efficient firms with a sufficient margin.

Maximum prices where necessary.—It is possible that in some areas, particularly urban areas in which large firms predominate, there may be a sufficient element of monopoly or of unanimity among the distributors to prevent a reduction in retail prices corresponding to any reduction in the wholesale price. To meet this difficulty, we think that there should be power to fix *maximum* retail prices in any area in which it seems that such action is desirable in the public interest.

Where maximum retail prices are fixed, we suggest that they should be enforced through the terms of the contracts or, in the case of producer-retailers, through the conditions of licence. It might be made a term of all contracts and licences that the buyer should observe any prescriptions as to maximum prices, even though they were made subsequent to the approval of the contract or the issue of the licence. If, however, this were considered too onerous, provision might be made for prescriptions as to maximum prices not to come into operation until the beginning of the next contract period, when contracts and licences could contain the new conditions. The disadvantage of the second alternative is that it might, in some instances, allow distributors to secure unduly high prices for several months.

Safeguards against price-cutting.—The fixed wholesale buying prices will prevent that kind of undercutting which, in pre-scheme days, arose from the fact that some distributors were able to obtain their supplies at prices lower than those inserted in the various collective agreements. It is recognised, however, that although long continued price-cutting may result in loss, yet it may be undertaken for a limited period in order to build up a connection, with the intention of reverting to the normal price once the connection has been secured. This kind of intermittent price-cutting is most likely to come from new entrants to the trade, and we suggest that established traders might be given a measure of protection by providing that, in the ordinary course, *new* producer-retailer licences should be issued to become operative only in the early part of the contract year, say in October and November, and similarly that *new* distributors should normally be allowed to make contracts only in the early part of each year. There should, however, be provision for special cases to be dealt with by the Boards on their merits. The object of this procedure would be to prevent the incursion of new retailers during the flush season except where there was a definite need of new facilities, and the necessary administrative safeguards should be applied to ensure that this purpose is achieved. We contemplate that the Board would not withhold either licences from new producer-retailers or contracts from new

distributors where, for example, the opening up of new residential areas created a new retail demand.

It is true that retailers could still enter the trade intermittently with milk bought from wholesalers, but such traders are unlikely to be a serious source of price-cutting, because many wholesalers would refuse to sell to those known to be cutting prices and also because the margin into which they could cut would be confined to the retail margin. The suggested limitation of the issue of licences or contracts to new retailers to one period of the year only would not give absolute protection, though we think it would provide an effective check, against intermittent price-cutting.

(iv) Effects of Proposals.

Consumers of liquid milk.—The most important result of our proposals in regard to milk buying prices will be that, in so far as the Government provide the funds necessary to bear the loss on the sale of surplus manufacturing milk, liquid milk prices will be relieved of this burden and it will be possible to reduce the price to consumers correspondingly. The reduction on this account would not be large, but it should enable the retail price to be reduced immediately by 4d. per gallon for three of the present high-price months.

We have no doubt that the freeing of retail prices will also contribute towards a reduction in retail prices in many districts and more particularly in rural areas.

Hospitals and other institutions.—The relief of the liquid milk market from the onus of the loss on manufacturing milk will also remove what we consider to be a legitimate grievance of hospitals and other institutions which take a large and regular supply of liquid milk. Any reduction in the prices charged to these organisations additional to that which would follow as a result of our proposals could, in our view, be based only on social grounds, and if any further reduction is made the cost should be borne by the State.

Distributors.—The lower wholesale prices that will be charged for liquid milk will conduce to some increase in the consumption of milk and should, therefore, be advantageous to the distributive industry. The freeing of retail prices from control will re-open the way to reasonable competition between distributors, in which prices as well as services will play their part.

Co-operative dividends.—Incidentally, the removal of price restrictions will overcome the difficulty that has arisen in the matter of the dividends paid by co-operative societies. Under the present arrangements, although the minimum retail price is fixed, co-operative societies are able to repay part of the price to their members in their dividends. In England and Wales other distributors are allowed to pay rebates on the same terms as, but not larger in

amount than, the co-operative societies, and in Scotland the position is much the same; under all the schemes the initiative is thus left to the co-operative societies. It is not the function of the schemes to favour either private or co-operative methods of trading. If the fixing of minimum retail prices is discontinued, the impression that the terms of the Boards' contracts favour the co-operative societies at the expense of the private trader will be removed.

Manufacturers.—Our proposals with regard to the fixing of manufacturing milk prices are designed to enable manufacturers to carry on their businesses in so far as they are necessary to the disposal of milk surplus to the liquid milk market. At the same time they are intended to ensure that the maximum returns are received for milk used for manufacture.

CHAPTER 26.—THE PERMANENT MILK COMMISSION AND ITS FUNCTIONS.

(i) The Need for an Independent Body.

The system of fixing producers' prices and buying prices for milk that we have recommended requires at every point the exercise of impartial judgment. We have expressed, in Chapter 20, the view that the determination of buying prices should no longer remain solely in the hands of the producers' Boards. If our proposals are acted upon, however, the whole basis of price fixing will be altered, and an independent price-fixing authority will become indispensable. Producers' prices will no longer be arrived at by pooling the receipts from the sale of milk at the best prices that can be obtained by negotiation. It is an essential part of the plan that they should be fixed in advance at levels calculated to secure that volume of production which is required for the purposes described on page 219; and the determination of this volume of production will form part of the larger process of planning a production and sales policy for the milk industry, in which a number of different interests will have to be carefully balanced. An independent authority is, therefore, needed for two purposes: first, to formulate a policy, or at least to work out the details of any policy outlined by the Government; secondly, to fix prices that are calculated to give effect to the policy determined upon. The whole plan would be seriously endangered if the fixing of prices were left to any body that was capable of being swayed by sectional interests, and more especially so if that body represented those who would stand to benefit by fixing either quantities or prices at an unduly high level.

Independence of judgment is hardly less necessary in the determination of regional and seasonal price variations and the amounts of quality premiums. These matters will affect different groups of producers in various, and sometimes opposite, ways. It is clear, therefore, that adjustments involving the interests of these different

groups will call for impartial and dispassionate examination of conflicting claims if justice is to be done to all concerned. It is also very desirable that even the suspicion of partiality should be avoided. So long as such decisions rest with producers' Boards, minority groups are likely to fear that their claims are not given fair consideration, but that the decisions reached depend more upon the relative strengths of the interested parties than upon the merits of the case. If, however, the decisions rested with an independent body to which all the facts and all the arguments were available, those decisions would be freed from suspicion of this kind; and as a result, we believe, they would be accepted with a better grace than those of a producers' Board and consequently that needless friction would be avoided.

Further, if buying prices for milk are to be fixed as we have recommended, the process of fixing them will no longer be one of bargaining; instead they will be assessed in accordance with a general policy and on the basis of the best information available. It is essential that the price-fixing should be done fairly and reasonably; but it is also important that buying prices should not even have the appearance of being fixed by one party and imposed upon the other.

Finally, we have suggested that a substantial annual sum should be provided by the State to be used for the stimulation of liquid milk consumption. Although we have given a general indication of the principal objects on which, in our view, this money should be spent, the details of its allocation will require careful and constant consideration. The precise uses to which the fund is put will affect both prices and the volume of production. There would be very strong objection to entrusting its disbursement to any organisation that represented only a section of the industry, however important that section might be. The body responsible for this task must be independent and disinterested.

These considerations together constitute, in our opinion, an overwhelming case for the appointment of an independent body which should be responsible for guiding production policy and for ensuring that the prices fixed are such as will promote the policy decided upon. We believe, however, that the usefulness of such a body should extend much further. The well-being of the industry depends largely upon the successful co-ordination of the various groups comprised within it. In the past too much stress has unfortunately been placed upon divergences of interests and too little upon their community. We believe that a suitable permanent body should be of great value as the nucleus of their co-ordination. Further, it should become the central authority on all matters relating to milk, responsible for advising the Government on problems within its purview and, in collaboration with the parties concerned, for implementing Government policy in regard to milk, for increasing liquid milk consumption and for promoting

improvements in the various branches of the industry. We accordingly recommend the establishment of a permanent Milk Commission which should be entrusted with these duties.

(ii) The Functions of the Milk Commission.

It will be necessary to describe in a little more detail the principal functions that we propose should be undertaken by the permanent Commission.

Prices and production policy.—An important task that will fall regularly to the Commission will be that of fixing the prices to be paid to producers and those to be paid by buyers to the Boards. In the last two Chapters we have sought to show the mutual interdependence of prices and production policy. At the outset the Commission will no doubt bear in mind the desirability of avoiding undue disturbance either to the producing industry generally, or to sections of the producing industry, or to the trades concerned. It will therefore start by fixing producers' prices, including regional, seasonal and other variations in those prices, at such amounts as will be designed substantially to preserve the present balance of interests.

We envisage, however, that the Commission will, before long, begin to shape its policy so as to bring about by gradual steps such changes as seem to be desirable. It will keep always in view the ultimate aim of securing the most economical production of the country's milk requirements. While it will aim at increasing the consumption of liquid milk and at maintaining the production of whatever volume of surplus manufacturing milk the Government may decide to subsidise, we suggest that it should seek to avoid any increase in production which would involve losses falling upon the liquid milk market.

In applying the principles that we have described, it is important that all the available knowledge and experience of the industry should be at the service of the Commission and that no aspect nor interest should be neglected. We suggest, therefore, that the producers' Boards should be asked to prepare, in advance of each contract period, reports on the results of the prices and conditions prescribed in the previous year, with complete statistics of sales and production; and also proposals as to prices and contract terms for the following year, together with reasons in support of the proposals and an estimate of the results expected from them. The Commission should also invite organisations of distributors and manufacturers, either separately or together as the Commission might think fit, to render reports on the last year's working and proposals for the following year. If it so wished it could meet the Boards and the buyers, either separately or together, in order to elucidate the position or to discuss particular points. The Commission should consider these reports and proposals and the amount of subsidy

likely to be available and, in the light of all the circumstances, should then fix the prices and contract terms to be prescribed by the Boards.

In view of the nature and constitution of the Commission (described later in this Chapter) we think it unnecessary and undesirable to provide for any appeal against its decisions. Those decisions will be reached in full consultation with both the Boards and the buyers and with due regard to consumers' interests; and, in general, the Commission may expect to carry all interests with it. But if in any particular instance it failed to do so, the Commission, by reason of its exceptional knowledge of the facts coupled with its independence, would still be the most suitable body to make the final decision. We propose, therefore, that in the legislation which will be necessary to give effect to our recommendations, a statutory requirement should be imposed upon the Boards to implement the Commission's findings on matters relating to prices and conditions of contract.

It is an important implication of these proposals that the ultimate responsibility for balancing the income from the sale of milk and from State grants with the expenditure in paying the fixed prices to producers must rest with the Commission, not with the Boards. This transfer of responsibility is the logical outcome of the introduction of an independent element in the fixation of prices. In consequence it will be the duty of the Commission, with the assistance of the Boards, to ensure by means of the reserves or the Government guarantees mentioned on page 231 that each year's commitments can be met.

The Commission would not normally attempt to control retail prices, but if it should become necessary to fix maximum retail prices in any area the Commission would of course consult the appropriate distributors' organisation, as well as the Board through whose contract the maximum price would be enforced.

Administration of Government grants.—We have suggested in Chapter 23 that a substantial annual grant should be made available out of public funds for two general objects, namely, the cheapening of milk to special classes of consumers and the relief of consumers generally from the burden of surplus milk.

One of the functions of the Commission would be to arrange for the wise spending of any such money, subject, of course, to any conditions that might be imposed by Parliament. It is possible, for example, that Parliament might wish to provide that a specified proportion of the grant should be devoted to one or other of the general objects mentioned above, or that some prescribed method should be used in allocating the grant between England and Wales, Scotland and Northern Ireland. There might, however, be some disadvantages in apportioning the annual grant for a number of years ahead. We think it would be preferable that the sub-division of State grants should be left in the hands of the Commission, subject to the public safeguards we suggest later. But in any

case reasonable latitude should be allowed to the Commission in regard to the spending of the money.

Although we have argued the case for State assistance on certain specific grounds, we have in mind other services on which some part of the money might be used to the advantage of the consuming public and the industry. Publicity and research for the benefit of all branches of the industry are examples in point, and there are other activities also—such as systems of recording designed to improve the efficiency of production—that the Commission might wish to aid out of the funds at its disposal. Within reasonable limits, it should be at liberty to do so.

We suggest that, if at any time further State monies are provided for additional assistance to the milk industry, including the encouragement of the consumption of liquid milk, they should be administered by the Commission. In that way wasteful duplication of effort and expense would be avoided.

Development of the industry.—A further important duty of the Commission will be to assist in initiating and in co-ordinating plans to promote the progress of the industry. The Commission should endeavour, in co-operation with the several interests concerned, to stimulate a greatly increased consumption of liquid milk; to find means of reducing the costs of production and distribution; to raise the quality of milk; to increase the efficiency of manufacture; and to seek solutions for the various difficulties that are bound to arise between interests. In all such matters the Commission would naturally work, as far as possible, with and through the appropriate organisations of producers, distributors and manufacturers; and it would make full use also of the experience of other bodies, such as the National Milk Publicity Council in regard to propaganda to increase milk consumption, and the Central Council of Milk Recording Societies in relation to certain aspects of production improvement.

We deal subsequently (Chapter 28) in some detail with the subject of co-ordination in its various aspects and also offer some suggestions (Chapter 29) as to the type of problems that will require the consideration of the Commission and the industry in the development of long-term policy.

Reports and advice to Government.—It should be the statutory duty of the Commission to make to the Ministers by whom it is appointed annual reports on its activities and on the condition of the milk industry generally; and these reports should be presented to Parliament and published. The Commission should also submit to the Ministers annual estimates showing, in advance, its intentions as to the allocation of the State funds to be administered by it.

The Commission should, further, be free to make such representations to the Government as it thought fit on any of the matters coming within its purview; and it should be available to furnish

advice or special reports on matters connected with the milk industry as the Ministers may from time to time request. The over-riding control of milk policy, as of every phase of national policy, must, of course, remain with the Government and Parliament, and it will naturally be the Commission's duty to implement the Government's instructions on any matter falling within its province. The establishment of the permanent Commission will thus in no way encroach on the Government's ultimate responsibility; but the Commission will be a source of informed and disinterested advice upon which the Government can draw for the material needed in making their decisions.

(iii) The Constitution of the Milk Commission.

We propose that the Commission should consist of a Chairman and four other members appointed jointly by the Minister of Agriculture and Fisheries and the Secretary of State for Scotland after consultation with the Secretary of State for Home Affairs, representing agricultural interests in Northern Ireland, and the President of the Board of Trade and the Minister of Health, representing the interests of distributors, manufacturers and consumers. The term of office of the members should ordinarily be five years, but in order to secure continuity, it might be arranged that two of the original members should retire after three years, two after four years, and that thereafter members should retire on the completion of five years in office. They would, however, be eligible for re-appointment.

It is obviously of very great importance that the Commission should be composed of persons of exceptional talent and experience. It would not be desirable to lay down any hard-and-fast rules as to the qualifications for membership, but it appears that those who show conspicuous ability in finance, industry, commerce, or administration in the widest sense, would furnish the type required.

We envisage the proposed Commission as a body which, unlike either a Committee of Investigation, or the "Appointed Persons" under the English scheme, or the "consultant" under the main Scottish scheme, will be in constant touch with the organisations of producers, distributors and manufacturers. It will not merely be brought in to hear the parties to a case after a deadlock has been reached and to attempt at that stage to find solutions for their difficulties. It will, no doubt, arrange to be furnished regularly with current statistics and other relevant information bearing upon every aspect of the industry, and these will be collated and examined by its own secretariat. At any moment the Commission will thus be in a position to give informed attention to any milk problem that may present itself.

If the Commission is to function in this manner it seems probable that the greater part of the Chairman's time and a large proportion of the other members' time will be occupied on the Commission's business. Their remuneration should be fixed with due regard to the heavy responsibilities that will rest upon them.

The administrative expenses of the Commission, including the salaries of the Chairman and members and of the staff, should be borne either as a first charge upon the Government fund which it will administer or as a separate item of the vote of the Ministry of Agriculture and Fisheries. In order to preserve the independent character of the Commission, the cost should not be met out of levies on the industry. The staff and accommodation required for the Commission would not be large; but it is essential that the senior officials should be thoroughly competent persons, each well qualified for his respective task, and their salaries should be commensurate with these requirements.

The decisions of the Commission will be the results of calculations and estimations based on facts and directed to implement a definite practical policy. For this purpose the Commission will naturally require the fullest possible knowledge of all the factors involved. There is little doubt, we think, that both the producers' Boards and the organisations representative of the other sides of the industry will be ready to co-operate to the full in assisting the Commission. To make the position perfectly clear, however, we suggest that provision should be made for the records and statistics of the milk Boards (and of the secondary products Board, if such a Board is set up) to be available to the Commission, who should also be empowered to require the Boards to collect and furnish any necessary additional information which falls within their province: and that, in respect of information required from other persons or organisations, the powers of the Commission should be similar to those of an Agricultural Marketing Reorganisation Commission; that is to say, the provisions of the Tribunals of Inquiry (Evidence) Act, 1921, might be invoked on its behalf by order of the Ministers by whom it is appointed.

(iv) Relations with other Organisations and Interests.

Relations with producers and producers' Boards.—The Commission would have no direct relations with individual producers, but would leave to the marketing Boards administrative action in all matters involving producers. In these matters the Commission would, with the assistance of the Boards, be responsible for directing major policy and deciding questions affecting other interests, while the Boards would discharge all executive functions. For example, as described above, the Commission would determine prices, but the legal force of the determinations would depend, as at present, on formal prescription by the Boards, whose duty it would continue to be to enforce the observation of the price and other terms of the contract. The control of registered producers by the Boards would remain on the same basis as under the present marketing schemes.

We have already expressed our belief that the milk marketing Boards will co-operate with the Commission in the most helpful manner. Producers would know that the Commission's decisions had been reached after careful and disinterested consideration of all the relevant factors, including the case presented by their own

representatives; and in the event of any disagreement there could be little doubt as to whether public opinion would accept the decisions of an independent tribunal or of an interested party. We have therefore proposed that the findings of the Commission in regard to prices and contract terms should be binding upon the Boards. We further recommend that " the Minister " should have the same general power to give directions to a Board, or to amend or to revoke a scheme, in consequence of a report from the Commission as he has to take such action upon a report from a Committee of Investigation.

Relations with distributors and manufacturers.—The Commission would keep in close touch with the representative organisations of distributors and manufacturers, not only during the discussions preceding the fixing of prices, but at all times, and would endeavour to make full use of the specialised knowledge and experience of the leaders of the trade. The Commission would consult with the representatives of distributors and manufacturers in formulating any proposals for promoting improvements in wholesale or retail distributive organisation or in the disposal of by-products.

The statutory preliminaries to the establishment of a Milk Products Marketing Board for Great Britain under the Agricultural Marketing Acts have already reached an advanced stage. If such a body is set up, it will naturally become the organisation with which the Commission will deal on matters affecting manufacturers. There is, however, no power under existing legislation for distributors to set up a statutory board on similar lines. In England, therefore, the organisation for distributors would probably continue to be the Central Milk Distributive Committee, which at present represents all wholesale buyers of milk in consultations with the Board. In the main area of Scotland the separate interests are each represented by a sub-committee of the Permanent Joint Committee set up under the scheme, and these, with such modifications as may be necessary in consequence of structural changes in the schemes, would be suitable bodies to advise the Commission.

In the event of a milk products Board being constituted, it would be possible for it, jointly with the milk marketing Boards, to set up a development board for the milk industry, provided that " the Minister " was prepared to issue an Order under Section 7 of the Agricultural Marketing Act, 1933, specifying that Part II of that Act shall apply to milk products. A development scheme may enable the board to exercise any power of a constituent marketing board in connection with the regulation of sales. Thus in the ordinary way a development board could presumably be empowered to exercise the powers of the milk marketing Boards to fix milk prices, notwithstanding that the development board was representative of producers and manufacturers only, and not of all sections of the industry. The need for such a board would be reduced by the existence of the proposed Milk Commission; but in the event of a development board being constituted, it should be made plain

that the determination of milk prices must remain with the Commission.

We do not propose that the Commission should at present have statutory power itself to enforce any decision on distributors or manufacturers. Decisions as to prices and conditions of contract will be effective without further statutory sanctions, since the terms approved by the Commission will govern sales, and thus purchases. In other matters it will be desirable that the Commission and the sectional organisations should develop their proposals and in due course apply to the Government for any legislative measures that may be necessary to carry them into effect.

Relations with the Committees of Investigation and Consumers' Committees.—We have recommended that the decisions of the Commission should not be subject to review save by the responsible Ministers and Parliament. It seems to us that there is nothing to be gained by providing for the Commission's decisions to be brought before any other tribunal. The Commission and its staff will be constantly in touch with all phases of the milk industry and will be fully informed on all points. The Commission will consist of independent and disinterested persons; no other body could claim greater impartiality, and none could possess the same intimate knowledge of the subject. The Commission will not in any way be an arbitrary or uncontrolled authority. It will only work within the limits of its statutory powers, and the contracts which it will approve and which the Boards will prescribe will, of course, continue to be subject to the interpretation of the Courts.

It would follow that the powers of Committees of Investigation to inquire into complaints against the operation of schemes would not extend to matters arising out of decisions of the Commission. In consequence there would be no occasion for direct contact between those Committees and the Commission over such matters. The powers of the Committees would remain intact in relation to complaints against all other actions of the Boards, but it is hoped that the influence of the Commission would be sufficient to prevent serious grounds for complaint. The same general considerations would, of course, apply in relation to the Consumers' Committees, but without impeding the latter in any investigations into the effects of the agricultural marketing schemes, including the milk marketing schemes, upon consumers.

CHAPTER 27.—THE PRODUCERS' BOARDS: THEIR FUNCTIONS, AREAS AND CONSTITUTION.

The proposal to set up an independent Milk Commission to coordinate policy in the milk industry and to exercise certain statutory powers in the public interest will involve some modification of the present functions of producers' Boards. We believe, however, that in the short time during which the Boards have been in existence

they have succeeded in carrying out tremendous tasks of organisation and administration in a manner that reflects the greatest credit upon them. We think, therefore, that changes in form and practice should be made only where it is evident either that they are consequential upon other proposed changes or that some improvement can be made without disturbing the present general structure.

(i) The Functions of Producers' Boards.

With the establishment of the permanent Milk Commission, the producers' Boards must continue to play an active and important part in the organisation of milk marketing. The transference to the Commission of certain duties for which an elected board is not primarily suited should enable the Boards to devote greater attention to other more constructive activities for which their constitution makes them the obviously appropriate bodies.

Executive and administrative duties.—In the first place, the general executive functions which form a highly important part of the Boards' present activities will remain practically untouched by the changes which we recommend. The Boards will continue to carry out all the work in connection with such matters as the registration of producers, the licensing of producer-retailers and the examination and registration of contracts, together with the consequential business of enforcing the regulations and contracts, collecting payments from buyers and paying the guaranteed prices to producers. An important function of the Boards will be to operate the proposed system of pooled transport charges and, in connection with this, to reduce transport costs as far as possible. It is essential for this purpose, and also for that of ensuring the most economic utilisation of milk, that the Boards should be able to determine the destination of supplies.

In conjunction with this executive work, the Boards will collect and prepare the statistical and general information which will guide them in arriving at their own decisions and proposals and which will also be of prime importance to the Commission. This information should enable each Board to present an accurate and clear report on the past year's working and to make reliable estimates as to the effects of any price changes which they might suggest. Such information must provide the basis of any proposals as to production and price policy which may be presented by the Boards to the Commission.

It will continue to be the duty of the Boards to keep producers informed generally of their obligations and their rights and to act for them wherever corporate action is required. The Boards will be the representatives of their constituents, not only in consultations with the Commission, but in such matters as negotiations with transport undertakings and possibly in arbitrations and law-suits involving matters of principle. When the Boards are relieved of the public responsibilities attaching to their statutory power to fix

prices, they will be entirely free to act in their natural capacity as advocates of the interests of producers.

Preparation of policy.—We do not envisage, however, that the Boards should become merely executive and administrative organisations. It will still be their concern to prepare proposals on matters of policy and to plan in detail programmes for development. For example, the framing and the supervision or the actual operation of schemes for quality improvement, milk recording or education in production technique, or for special experiments in increasing consumption, would probably rest largely with the Boards. Subject to consultation with, and approval by, the Commission, they might establish wholesale distributive depots where existing facilities are insufficient; re-arrange long-distance transport of milk; or extend their manufacturing activities. They might find it practicable and desirable to use their organisation to further the interests of producers in other ways in which co-operative effort would reduce costs or otherwise promote efficiency. There is still an enormous field for planned progress in which the Boards can serve the interests of producers.

Financial functions.—Each Board should possess financial autonomy in regard to the funds derived from the " administrative levy " on producers. The amount of this levy will be determined by the Board and will thus be within the control of producers themselves. It must be sufficient to cover the bare expenses of administering the scheme, but it might provide also for any other services or commitments which the Board decides to render or to undertake in the interests of producers.

The Boards might, for example, wish to build up funds for the provision of depots or factories, or to set aside money, additional to any provided by the Commission, for special propaganda or research purposes; and there is no reason why they should be discouraged from doing so, provided that other interests are suitably protected. Such funds would, of course, be used by the Boards for their own approved purposes and would not be available to meet any possible deficit on the income from the sale of milk.

It has to be borne in mind, however, that the regional prices to producers are to be fixed with the object of implementing a production policy; and a large deduction from these prices would tend to prevent the fulfilment of the production estimates. It is obviously desirable, therefore, that a Board should consult the Commission before undertaking any major expenditure which might seriously affect the level of producers' net returns. Subject to this proviso, we recommend that the Boards should have entire control of the money raised through their levies. They will be responsible to producers for the expenditure of the income and will thus have a steady incentive to economy and efficiency.

Capital assets.—If a Board owns large capital assets, as the two larger Boards do at present, the question arises whether the

interests of individual producers in the capital embarked in those assets should not be recognised by the adoption of what is known as the " revolving fund " method of capitalisation.* This would avoid the inequitable situation whereunder a new producer may automatically benefit from the use of assets accumulated from the contributions of others, without making any contribution himself. We are of opinion that, if the Boards consider it desirable to recognise the interest of individual producers in the assets of the Boards, recognition can best be given through the application of the " revolving fund " principle. It is possible, too, that the capitalisation on this basis of the assets of the three Boards in Scotland might overcome some of the difficulties of replacing the present schemes by one for the whole of Scotland.

The " revolving fund " system would, of course, only be applicable to assets obtained by direct levy on producers; it would not be suitable for any reserve that might be acquired through annual surpluses arising from the sale of milk, because a reserve so acquired would represent a contribution by consumers to ensure stability and should be applied in their interests. Subject to the considerations set out above, we consider that it should be a matter for the discretion of individual Boards whether or not they adopt the " revolving fund " principle for those capital assets which may properly be described as their own.

(ii) Scheme Areas and Regions.

Our terms of reference require us to consider and report on the extent to which, and the manner in which, organisation could be facilitated by closer co-operation between marketing Boards, or by the amalgamation of some or all of the schemes, including any schemes at present under consideration.

The four milk marketing schemes now operating in Great Britain cover the whole country with the exception of Moray and Banff, Orkney and Zetland and parts of the county of Argyll. Separate schemes have been prepared for Moray and Banff and for the outstanding parts of Argyll, but have not yet been put into operation.

The smaller schemes.—There are several arguments which have been advanced in favour of retaining a number of small separate

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* NOTE.—Under the "revolving fund" method of capitalisation the money needed for capital purposes would normally be obtained in the first instance in the form of a loan. This loan would be repaid over a period of, say, five years out of a small special levy made upon registered producers. The sum raised by this levy would be regarded as a debt repayable to the individual producers concerned at the end of the five-year period and secured on the assets of the Board. At regular intervals certificates would be issued to producers showing the amounts collected from them for this purpose and promising repayment five years after the date of issue. At the end of the first period of five years the whole of the original loan would have been repaid, and the capital invested would consist of the levies raised from producers over that period. The levies would, however, continue, and the current proceeds would be used to pay off the earlier certificates as they fell due. In this way the capital required would turn over, or " revolve," every five years.

schemes. It has been urged that the varying conditions under which milk is produced in different parts of the country make separate schemes preferable; that a scheme suited to the more densely populated counties would not be appropriate to areas in which the population is widely scattered; and that the headquarters of a large scheme cannot maintain effective touch with all parts of its area.

There is, we think, no great weight in any of these arguments. Provision can be made for differences in production and marketing conditions through differences in the levels of regional prices under the system that we have described. The needs of sparsely inhabited areas can be met by exemptions either of areas or of particular classes of producers or by other special provisions. Difficulties of an executive character can be overcome by the delegation of duties to regional committees.

On the other hand, there are a number of objections to a multiplicity of schemes. For example, they give rise to difficulties of co-ordination; and given the same system and services, the costs of administration per gallon of milk are appreciably higher for a small scheme than for a large one.

The fundamental argument against the continuation of a number of small separate schemes is, however, that there is no economic justification for reserving a higher-priced market for any particular commodity to those producers who happen to be situated close to that market. The real reason why producers under the two smaller Scottish schemes desire to retain their autonomy is admittedly that they are thus able to secure higher net prices than they would expect to receive under a Great Britain or an all-Scotland scheme. They are able to obtain these higher prices mainly because the Boards have no large surplus to sell at manufacturing prices; and this, in turn, is due to the facts that the local production does not greatly exceed the local demand for liquid milk; that parts of the relatively small surpluses are sold into England at liquid milk prices; and that milk is not sent into these smaller scheme areas from the area of either of the larger schemes. It is true that the practice of selling into England dates from pre-scheme days; but the very existence of the two small Scottish schemes seems to depend upon the English Board refraining from retaliation. The whole position is, in fact, artificial and unstable. It is only necessary to visualise the situation that would be created if the principle of small separate schemes were extended to other parts of the country, and to other commodities, for this to become glaringly obvious.

Two main principles that have actuated us in framing our recommendations are, first, that as a long-term policy production should be encouraged in those places where it can be undertaken most economically and, secondly, that producers should be protected against the sudden or violent disturbance of their businesses. It seems clear that, if the two smaller Scottish schemes are merged

with the main Scottish scheme, adequate protection can be given to producers throughout the whole area by introducing the regional system and making suitable differentiations in the levels of regional prices.

Separate schemes for England and Wales and for Scotland.—In spite of certain advantages that might follow from the establishment of a single milk marketing scheme for the whole of Great Britain, we think that it would be inadvisable to undertake so large a measure of amalgamation at the present time. Many witnesses have emphasised the importance of maintaining local interest and strengthening local contacts, for it is essential that all producers should appreciate the problems which confront the Boards and that the Boards should be fully acquainted with the views of producers. We believe that, on balance, it is desirable to maintain separate milk marketing schemes for England and Wales and for Scotland.

It is true that with two Boards instead of one there will be problems of co-ordination, but if price-fixing powers are exercised by a single independent body having jurisdiction in this respect over the whole of Great Britain, the most fruitful source of difficulty will be removed. We do not doubt that the administrative advantages of a separate scheme for Scotland will, for some time to come at all events, justify the time and thought that will be needed to secure full co-operation between the Boards.

We recommend, therefore, that separate schemes, on lines as nearly analogous as possible, should operate in England and Wales and in the whole of Scotland respectively. If at a later stage, amalgamation of the two schemes should seem to be desirable, it will be possible for the two Boards to take the necessary action.

Regions.—So far as England and Wales is concerned, we consider that it would be inadvisable for the present to make any alteration of the existing regional boundaries. It seems impossible for every region of considerable size to be entirely homogeneous in its characteristics; and so long as producers' prices vary between regions, any boundary is certain to create grievances and a desire on the part of groups of producers to be transferred from one region to another. Any re-arrangement designed to meet such grievances might easily cause as much discontent as it would cure. While, however, we are of opinion that it would be inexpedient to make any alterations now, we recognize that changes which are taking place in the conditions of the agricultural industry may in time necessitate some changes in the regions also.

Where Scotland is concerned, our task has been more difficult. It is not sufficient to take the existing scheme areas and to reconstitute them as regions within the single scheme. There are considerable areas in which no scheme is in force; and in any event the present scheme areas would not be entirely suitable for the purpose, because of the wide differences of conditions within the main Scottish area. The general principle which we have employed

in delineating the regions we propose is (as in England and Wales) that of differentiation as nearly as is practicable according to conditions of production and marketing, while still keeping to recognised local government boundaries. Whatever criterion be adopted, it is obvious that nothing approaching equality in importance between regions is possible on account of the fact that in Scotland the production of milk in considerable quantities is largely concentrated in the southern half of the country.

The first of the proposed Scottish regions is the South West of Scotland, which includes the counties most directly concerned in the supply of the Glasgow market. This region is also responsible for producing the bulk of the milk used in manufacture. The second region is the South East of Scotland and covers the counties surrounding Edinburgh and Dundee. The third region consists of the present Aberdeen and District scheme area, with the addition of Moray and Banff, the chief consuming market being Aberdeen. The fourth region proposed is the North of Scotland, covering the same area as the present scheme. We consider it desirable that this area should be constituted a separate region because the population is more scattered and communications are less developed than in other parts of Scotland.

The counties comprising each of these four regions are set out in the following Table, together with estimates of their annual milk sales :—

TABLE 28.—Proposed Scottish Regions.

Region I (*South West*)	*Region II* (*South East*)	*Region III* (*Aberdeen*)	*Region IV* (*N. of Scotland*)
Argyll	Perth	Moray	Caithness
Dunbarton	Angus	Banff	Sutherland
Stirling	Clackmannan	Aberdeen	Ross
Renfrew	Kinross	Kincardine	Inverness
Lanark	Fife		Nairn
Bute	West Lothian		
Ayr	Mid Lothian		
Wigtown	East Lothian		
Kirkcudbright	Peebles		
Dumfries	Selkirk		
	Berwick		
	Roxburgh		
Estimated Annual Sales (thousands of gallons)	86,000	24,000	9,250	1,900

Orkney and Zetland, which have not been included in any of the above lists, might be regarded as part of the Aberdeen region, since it is understood that their main communications with the mainland are through Aberdeen. But we suggest later that producers in Orkney and Zetland might conveniently be exempted from the marketing provisions of the scheme.

The first and second of the above regions together make up the area of the present Scottish Milk Marketing Scheme. It seems desirable to separate this area into at least two regions because, as the history of the Scottish scheme shows, the interests of the East and of the West are divergent in some respects. In pre-scheme days the circumstances of producers generally in the proposed second region were such that their returns were somewhat higher than those of producers in the West. This difference has been recognised, and a number of expedients have been adopted under the scheme with the object of securing a continuance of somewhat higher returns to producers in the East. These expedients are indirect and complex in their effects; and in our view the situation will be met, not only more simply but more satisfactorily, by dividing the main Scottish area into two regions and fixing separate prices for each region.

We have, indeed, considered whether it might be preferable to divide the present main Scottish area into three regions instead of two, the third region consisting of certain counties or parts of counties in the extreme south-west. On the whole, however, we are of opinion that it would be undesirable to do so. While there are differences between conditions in the extreme south-west and those in the counties nearer to Glasgow, they appear to be differences such as are bound to occur in any region. Whereas the line of demarcation between the East and the West of the present main Scottish area is reasonably clearly defined, it would be more difficult to find a suitable line by which to sub-divide the West into two regions.

It may be mentioned that producers in the East themselves proposed, through the East of Scotland Milk Producers' Federation, that the main Scottish scheme area should be divided into regions. As our proposed second region covers the same counties as the East of Scotland Federation, it appears that the region will have common interests on all the most important points that have been in dispute between producers in the eastern and western parts of the main Scottish area.

We have proposed the inclusion of Moray and Banff with Aberdeen and Kincardine because we understand that conditions of production and marketing are, in the main, similar throughout these four counties. The North of Scotland region also appears to be generally homogeneous as regards the conditions of dairy-farming.

In proposing these regions we have assumed that the Western Isles, which have been exempted from the operation of the present scheme by special resolution of the North of Scotland Board, and Orkney and Zetland, would all be exempted by the new Board unless producers expressed a wish to be included.

(iii) The Constitution of the Boards.

The changes in the constitution of the Boards which we propose are aimed at securing the smoother operation of the existing machinery rather than at a radical reconstruction of that machinery. In Scotland, however, the establishment of a single scheme on a regional plan will render some major changes inevitable. Since changes must be made in order to fit the constitution of the Board to the regional system which we recommend for both England and Wales and Scotland, it seems desirable that the same general principles might advantageously be applied to both of the proposed Boards.

Regional members.—As we have indicated, the system of regional representation on the Boards is, in our opinion, desirable if the functions of the Boards are modified on the lines we have proposed. We consider, therefore, that this system should be retained in England and Wales and introduced in Scotland.

We recommend that the number of regional representatives on the English Board should remain at twelve, being one for each region except the North Western, which should continue to have two. In Scotland the wide differences in the quantities of milk produced in the different regions would render a uniform distribution of Board members amongst them impracticable, and it would be equally impracticable to allot representatives in proportion to production. We suggest that the South West should return four members to the Board, the South East two members and the Aberdeen and the North of Scotland regions one member each. The disparity between the volume of sales in a region and the representation afforded to it would not be so marked as is suggested by the figures on page 252, because large numbers of producers in the present Aberdeen area, and still more in the North of Scotland, who sell only small quantities, are at present exempt and will, no doubt, so continue.

Non-regional members.—The regionally representative character of the English Board is at present modified by the inclusion of five non-regional members, three of whom are elected by registered producers in general meeting and two co-opted after consultation with the Market Supply Committee. Each of the other schemes also provides (in accordance with the Act of 1933) for the co-option of two members, additional to the elected members, after consultation with the Market Supply Committee.

We consider that the addition of special members is very desirable, not only because they are free from sectional interests, but because they offer the opportunity of strengthening the Boards by the inclusion of men who have proved their ability in spheres of activity outside the milk industry. We do not believe, however, that election at a general meeting which can be attended by only a very small proportion of registered producers is a suitable method of appointment; nor, indeed, that popular election is the best means

of obtaining persons with the type of qualifications that are desirable in special members.

We accordingly propose that all special members should in future be co-opted by the elected members of the Boards. We recommend that in England the number of special members should remain at five, but that the obligation to consult the Market Supply Committee should apply to the selection of three, instead of two, of these members. The qualifications of these five persons should include administrative, financial or commercial experience. In Scotland, where the number of regional members is smaller, the number of special members should be three, and the Market Supply Committee should be consulted in the selection of two out of the three. The elected members of the English Board would thus be left with complete freedom in the selection of two of the co-opted members; and the elected members of the Scottish Board would be left with complete freedom in regard to one co-opted member.

The English scheme (para. 83 (2)) provides that an unsuccessful candidate at an election of county representatives (on regional committees) or of regional members (of the Board) shall be disqualified from being *elected* as a special member of the Board within the same calendar year. We think it undesirable that this disqualification should apply in future to the *co-option* of special members.

Representation of special interests.—It has been suggested to us in evidence on behalf of certain interests that they should be granted direct representation on the Board proportionate to their importance in the industry. We cannot agree that such representation is desirable; in our view it would tend to exaggerate the diversity of interests on the Boards rather than to reconcile them. Nevertheless we consider that, when filling the places in which their liberty of co-option is absolute, the Boards should have regard to any particular interests, such as those of producer-retailers, which may not be adequately represented among the elected regional members.

Method of election.—The system of proxy voting which has been adopted under each of the milk marketing schemes is, in our view, undesirable in principle. It tends to encourage producers to leave the onus of decision to those who have the resources and organisation to collect proxies and thus to regard their own individual responsibilities too lightly.

The indirect method of election of members of the Board adopted under the main Scottish scheme (described on page 13) has the advantage that there is no definite claim on members to support the interests of any particular region. The advantage is not all on one side, however; for certain groups of producers who consider that the Board has neglected their interests have urged that there should be representation by districts; and, as we have indicated by our recommendations, we think that there is force in their

contention. In any case, the appointment of the Selection Committee at the annual general meeting is open to objection, since it involves those who attend the meeting in expense and makes it possible for a bare majority of those voting to appoint all fifty members of the Selection Committee and thus to secure whatever Board they wish. In practice, it is understood, there has never yet been any voting for the Selection Committee, the National Farmers' Union of Scotland having been able to secure the withdrawal of any nominations in excess of fifty.

It has now been recognised that the system of self-government in the various branches of agriculture through organisations of producers themselves holds out great possibilities for furthering the interests of those branches and promoting their greater efficiency. But in our opinion the value, as well as the stability, of the system depends very much upon the acceptance by individual producers of the responsibility vested in them. It is of primary importance that each should take his share in the election of the Board. In order to insist upon the personal nature of this responsibility, and in view of the widely scattered nature of the electorate, we think that the system of direct postal voting is the most suitable for adoption, and we accordingly recommend its use in all elections to the Boards. Incidentally, it avoids the disadvantages attendant on proxy voting and does not involve any expense or time in journeying to a polling station.

It has been represented to us in evidence that the expense of seeking election to a Board is very high for candidates who have not the backing of a large organisation, and that in England it has not been possible, except at a cost which may be so high as to be prohibitive, to obtain a copy of the Board's register of producers. This renders it practically impossible for an independent candidate to circulate an address to his constituents. It is obviously desirable that the costs of standing for election should be reduced to the minimum and that all candidates should be placed, as far as possible, on a footing of equality. We recommend, therefore, first, that every candidate should be entitled to obtain from the Board a list of the registered producers in his region at a nominal cost, in order that he may arrange for canvassing; and secondly, that each candidate should be entitled to send an election address of limited size and weight to every registered producer in his region, the Board paying the cost of printing and postage. The election addresses of all candidates in a region should be lodged with the Board by a specified date and might then be forwarded together to the producers. Alternatively, the election addresses might be printed in any periodical issued by the Board which is sent to all registered producers. We further propose that every nomination of a candidate should require the signature of at least 25 registered producers and that, as a protection against freak candidatures, every candidate should be required to deposit a sum of, say, £25 with the Board, which would be forfeited in the event of failure

to secure one-eighth of the total number of votes cast or one-quarter of the number of votes cast for the candidate at the top of the poll, whichever is the less.

Regional committees.—The English Board has, in each region, a regional committee, consisting of the regional member or members of the Board and a number of county representatives, whose duty it is to maintain touch between the Board and the producers in the different regions. The functions of these committees are to report or to make representations to headquarters as to the operation of the scheme in the region and, when consulted by the Board, to advise in relation to that region on any proposals that may be under consideration.

We consider that committees of this kind should form an important part of the machinery of administration. We accordingly recommend that similar committees should be set up on the same basis in each of the regions in Scotland, and that in both parts of Great Britain their sphere of activity should be extended as far as possible. We have no doubt that they can be of great value to the Boards as a medium for maintaining contact with producers and explaining policies and difficulties to them, and so in preserving their confidence. At the same time they can serve a useful purpose in keeping regional members, and thus the Boards, informed of the trend of opinion among producers. Their position and influence would be greatly strengthened if they were used regularly for these two essential purposes. On the one hand, they should be furnished with full and frequent reports upon the decisions and the policy of the Boards; and on the other, they should be entrusted by the Boards with the conduct of local negotiations and the representation of local opinion. In this way the regional committees should act as an antidote to the over-centralisation which tends to develop with large schemes.

We recommend that the members of regional committees, like the elected members of the Boards, should be elected by the direct postal vote of registered producers.

Producer-retailers' advisory committees.—The Grigg Commission suggested* that " considerable advantage might be gained by the establishment of a committee to deal, in the first instance, with all questions connected with the interests of producer-retailers ". That Commission took the view that " the existence of such a committee would encourage among that very important section of producers a feeling that their particular interests were given adequate consideration ". We believe that the absence of such committees has had unfortunate effects on the relations between producer-retailers and the Boards. One indirect result in England has been the formation of a national organisation of producer-retailers and also of a producer-retailers' sub-committee of the National Farmers' Union. It is clear that producer-retailers felt

* Economic Series No. 38, page 80.

the need for such a body, which might with advantage have been set up within the Board's own organisation. We accordingly propose that each of the Boards should be required to establish a producer-retailers' advisory committee; and we suggest that each regional committee might be asked to nominate three (in Scotland, four) producer-retailers, the Board selecting one (in Scotland, two) of those nominated from each region to serve on the advisory committee.

Committees of the Boards.—Although the English scheme provides, in accordance with the requirements of the Act of 1933, that the Board shall appoint an executive committee and shall delegate certain functions to it, we understand that little use has, in fact, been made of this committee. The reason is, no doubt, that many of the important matters calling for decision have concerned, directly or indirectly, the conflicting interests of regions and that it was desirable, therefore, that all regions should be represented when these matters were under discussion. The situation will, however, be different with the changes that we have proposed. While we regard the question of the use by the Boards of committees as a matter for their own decision, and do not propose, therefore, to make any specific recommendation on the subject, we feel that there would be some economy of time and labour if an executive committee were empowered to deal with routine matters and to prepare proposals on more important questions for the consideration of the whole Board.

Annual general meetings.—Each of the four schemes provides for the holding of an annual general meeting of registered producers. The principal items of business that come before the annual general meeting are normally :—

(*a*) the election of certain of the members of the Board (or, under the main Scottish scheme, the appointment of the Selection Committee which elects the members of the Board);

(*b*) the submission and discussion of the year's accounts;

(*c*) the determination of the remuneration of the Board.

We have already recommended that, in future, the "representative" members of the Board should be elected by the direct postal vote of registered producers and that additional members should be co-opted by the members so elected. In these circumstances the annual general meeting would no longer be concerned with the election of any members of the Board.

The English scheme, unlike the three Scottish schemes, does not provide specifically for the submission of the annual accounts to registered producers in general meeting. Nevertheless it is understood that the accounts have, in fact, formed one of the principal matters for discussion at annual general meetings. It is obviously desirable that all registered producers should have reasonable opportunity to obtain information and to raise discussion on the transactions of the Board as reflected in the annual accounts.

The provision made regarding the remuneration of Board members varies in the different schemes. In England and Wales it has been the practice for the annual general meeting to determine the remuneration of the Chairman and of each of the members. Under the main Scottish scheme the remuneration of the Board as a whole is determined by the general meeting, and the total sum is divisible among the members of the Board as the Board may determine. Each of the two smaller Scottish schemes provides for the annual general meeting to fix a sum for the remuneration of the members of the Board other than the Chairman, and for this sum to be divisible among those members as the Board shall decide; but the remuneration of the Chairman is determined by the Board.

In general, we are of opinion that a single annual general meeting of registered producers throughout the whole of England and Wales or the whole of Scotland could not afford adequate provision for the consideration and discussion by individual producers of the operations of the scheme. It is impossible to expect that more than a very small proportion of registered producers will be able to travel long distances to one central point for the purpose of an annual general meeting. In present circumstances it is improbable that such a meeting would be representative of opinion among producers generally. Experience has shown that, in England and Wales at least, these meetings do not afford a suitable opportunity for the reasoned consideration of the results of the year's work nor for dispassionate decisions on matters that may need to be laid before producers. In our opinion it is desirable that wider opportunities should be given to registered producers to express and exchange views. Further, it is desirable that in England and Wales, as in Scotland, decisions as to the remuneration of the Chairman and the individual members of a Board for their year's labours should be removed from the atmosphere which is apt to prevail at annual general meetings in present circumstances.

We accordingly recommend that instead of annual general meetings of all producers registered under one or other of the schemes, provision should be made for (i) annual regional meetings of registered producers and (ii) for annual meetings of all the members of the regional committees for the whole scheme area. Under this procedure, as soon as possible after the circulation of the annual accounts, arrangements should be made for a general meeting of registered producers at a convenient centre in each of the regions. At these meetings individual producers would raise any points which they thought required discussion, and each regional committee would obtain guidance from its own electorate as to the attitude it should adopt at the subsequent delegate meeting.

The subsequent meeting would be representative of the whole of the scheme area. It would be open to all members of the regional committees to attend and to vote individually. At this meeting the business to be transacted would consist of :—

(*a*) the consideration of resolutions approved at regional meetings and forwarded to the Board within a specified period prior to the annual delegate meeting;

(*b*) the approval of the annual accounts;

(*c*) the determination of the total sum to be paid to the Board as their remuneration, which sum should be divided among the Chairman and the members at the Board's discretion;

(*d*) the election of auditors;

(*e*) any other formal business.

We believe that the procedure we have suggested will enable business to be conducted much more satisfactorily than at present and will at the same time be found to have several other advantages. It will provide greater opportunities for individual producers to acquaint their regional committees with their views; it will ensure that regional committees shall take a more important part in the working of the schemes; and it will assist the members of all those committees to make personal contacts with one another and with the members of the Boards. The main criticism of it is likely to be of the number of meetings; but without regional meetings it is obviously difficult to afford the thousands of producers any adequate opportunity of exercising a due influence in the management of their schemes.

CHAPTER 28.—CO-ORDINATION.

We suggested in Chapter 26 that one important service to the industry generally which the permanent Commission should perform was that of assisting to co-ordinate the various interests concerned with milk marketing. The subject is important because so much depends upon the concerted development of the different sections of the industry. Where principles and policy are concerned, it will not be a matter merely of securing smooth working, but of taking decisions which may involve other interests than those immediately affected and may have an influence extending far beyond the particular problem under consideration. It is therefore desirable to devise some machinery of co-ordination which, in spite of the diversity of the problems, will take account of their ultimate interdependence.

Among the matters that will call for joint consideration there is first the question of co-ordination between the two producers' Boards which, if our proposals are implemented, will be operating in Great Britain. Next, there is the need for linking together the interests—which in some respects conflict—of the Boards, as sellers of milk, and of the buyers. Thirdly, there are the domestic problems of the two groups of buyers—distributors and manufacturers. Fourthly, certain matters arise which concern not only Great

Britain, but the whole of the United Kingdom and in which, therefore, the position of Northern Ireland, with its own separate milk marketing organisation, must be considered. Finally, there are some questions of a more general character, including the relations of the Boards to the consuming public. These aspects of co-ordination are considered in the following paragraphs.

(i) Co-ordination between the Milk Marketing Boards in Great Britain.

The four milk marketing Boards now operating in Great Britain have found it necessary to seek agreement between themselves on several matters of major importance. The three Boards in Scotland have, for example, mutually undertaken not to sell milk in each other's territory. The main Scottish Board has agreed with the English Board, in return for compensation, to retain in Scotland the great bulk of the milk which was previously sold into England. No similar arrangement has been made between the English Board and the Boards administering the two smaller Scottish schemes, and in consequence, there is still some flow of liquid milk from Aberdeen and the North of Scotland into England which is not regulated by agreements between the Boards.

The arrangements made between the English and main Scottish Boards have not afforded a complete solution of their problem. The milk retained in Scotland has had to be manufactured into milk products, and difficulties have arisen from time to time through alleged undercutting of the English market by Scottish manufacturers. Moreover, settlement on the basis of compensation assessed by reference to pre-scheme conditions takes no account of changes that would or might have occurred in the ordinary course; and in any event it is unlikely to be regarded as permanent. It has been possible in this and other cases to arrive at some arrangement, temporary and provisional though it may be, to overcome practical difficulties as they have arisen; but the experience of the last two or three years has served to emphasise the need for permanent machinery of co-ordination.

Producers' returns.—The importance of the main inter-scheme problems which have so far faced the different Boards lies in the fact that the prices payable to producers within the area of a scheme are at present directly dependent upon the income from the sale of the milk produced within that area. The Scottish Boards have been anxious to retain an outlet into England for that quantity of milk which was formerly sold south of the border, or to obtain compensation in lieu, because their pool prices would be reduced if this milk had to be retained for manufacture within their own areas.

Under our proposals, however, the prices payable to producers within each of the regions (whether in England and Wales or in Scotland) will be fixed in advance at a level calculated to bring

forth the quantity of milk required from that region. The price payable within a region will not be dependent upon whether the actual milk produced there is sold for liquid consumption or for manufacture. There will, therefore, be no need to continue special inter-scheme arrangements on the basis of those which have been made in the past. The producers in every region of both England and Wales and Scotland will be protected in a different way against any loss of income which, under present conditions, they would suffer through losing part of their high-priced market. If, in practice, it is found convenient to supply, say, parts of northern England with liquid milk from the south-west of Scotland, or if milk now sold into the English liquid market from the Aberdeen area is transferred to manufacture, the prices to producers will not be affected. The funds at the disposal of the Commission will be used to make up the resources of the Boards to the sums necessary to pay their registered producers the guaranteed prices.

This will not interfere with the autonomy of the two Boards. So far as the income from the sale of milk is concerned (whether the milk is sold for liquid consumption or for manufacture) we contemplate that the funds of the English Board and of the Scottish Board will remain entirely separate. But because of the low values realised for manufacturing milk and of the low prices at which milk will be made available for special classes of consumers, the income of neither fund will be sufficient by itself to pay the prices guaranteed to producers within the scheme area. Both funds will need to be augmented from the Government grants administered by the Commission. The amount of the addition to each fund from this source will depend mainly upon the quantity of milk produced within the scheme area concerned which is sold at low prices either to special classes of consumers or for manufacture.

It follows, therefore, that if any changes take place in the proportion of milk sold for manufacture within either scheme area, due to the operation of the Commission's production and price policy, there will be corresponding adjustments in the contributions made by the Commission to the Boards' funds. These adjustments can be used to correct any change in a Board's receipts which may be caused by an alteration in the proportions of the total output sold, respectively, for liquid consumption and for manufacture. There should, accordingly, no longer be any need directly to regulate the flow of supplies from one scheme area to another except, of course, from the point of view of reducing transport costs; but where necessary the Commission should determine the terms and conditions under which the milk produced within the area of one scheme may be sold within the area of the other.

Wholesale buying prices.—In the same way, while the milk marketing Boards proposed for England and Wales and for Scotland will be concerned with the wholesale buying prices fixed for milk and will be among those to be consulted by the permanent

Milk Commission in the fixing of those prices, the final responsibility for the levels of prices throughout Great Britain will rest with the Commission. There will accordingly be no need for special co-ordination between the two Boards in regard to wholesale prices. The Commission, in fixing these prices, must obviously have regard to the necessity for avoiding any differences in price levels which would enable manufacturers in one part of the country to undercut those in another part.

Other matters.—In these circumstances we believe that the proposals which we have made regarding the system of determining both the prices payable to producers and the wholesale buying prices of milk will effectually remove the most important of the inter-scheme difficulties that have so far arisen in relation to the actual marketing of milk. In general the way will be clear for the Boards to organise the flow of milk for liquid consumption and the diversion of milk for manufacture so as to make for the greatest convenience and economy. This will of itself require close co-operation between the staffs of the two Boards.

The co-ordination problems associated with the marketing of manufactured milk products, which affect all manufacturers of those products, including the Boards in their capacity of manufacturers, are considered separately in a later section of this Chapter.

There will, in addition, be a number of other matters that will call for collaboration between the two Boards. It would obviously lead to dissatisfaction and difficulty if, for example, the Boards were to work on widely divergent lines in dealing with such questions as the exemption of small producers. We do not suggest that in matters such as these there should necessarily be strict uniformity of procedure throughout Great Britain, for the conditions may be different; but we have no doubt that it will make for smoothness of operation if common principles can be agreed upon as the basis of the detailed decisions.

Standing Co-ordination Committee.—We are of opinion, therefore, that it will be desirable to provide at once for a standing Co-ordination Committee of the two Boards. The decisions of this Committee should not, of course, be binding upon the Boards, so that there would be no interference with their administrative independence. The Committee's functions would be deliberative and advisory.

Although, as we mention later in this Chapter, Northern Ireland is not directly interested in the Great Britain market for liquid milk, there are a number of matters which will be common to the whole of the United Kingdom. We propose, therefore, that Northern Ireland also should be represented permanently on this Committee.

Since the Committee will be of an advisory character, it is not necessary that the representation of England and Wales, Scotland and Northern Ireland should be weighted in such a way as to reflect the importance of the industry in the three parts of the

country. Bearing in mind the desirability that a committee of this kind should be compact, we propose that the Co-ordination Committee should consist of not more than four representatives of the English Board, three of the Scottish Board and two of Northern Ireland. We suggest later, however, that the Committee might also become the nucleus of a body exercising somewhat wider functions and that its numbers should be augmented for these special purposes.

We have given considerable thought to the question whether the Co-ordination Committee should include also two or three of the members of the Milk Commission. The main advantages would be, first, that an element would be introduced which should ensure that, in the consideration of any particular problem, no other interest was overlooked; and secondly, that the members of the Commission would be given an insight into the difficulties of the different sections of the industry which they might not otherwise obtain. We have, however, come to the conclusion that it would be preferable that members of the Commission should not serve as members of the Committee. It is obviously essential that the Commission should maintain intimate touch with the problems of the industry; but it is equally necessary that the Commission should retain its complete independence.

It is important that the three groups of representatives on the Co-ordination Committee should all feel equally free to bring matters before the Committee and, further, that machinery should be readily available to the Committee to bring the permanent Milk Commission into consultation on any subject under consideration. We propose, therefore, that the Co-ordination Committee should appoint an independent Chairman and that they should empower him to discuss any question under consideration by the Committee with the Chairman and members of the Commission. If the Committee should desire still closer consultation with the Commission, as we hope they will on major problems, arrangements to that end should be made through the respective Chairmen. In order to keep the Commission fully informed with regard to the proceedings of the Committee, the Commission might be invited to send a senior member of its staff to the meetings as an observer.

(ii) Co-ordination between the Boards and Buyers.

As we have tried to show, the arrangements proposed for the independent fixation of buying prices for both liquid and manufacturing milk and of the terms and conditions of contracts should remove most of the important sources of difficulty between the milk marketing Boards and wholesale buyers of milk. It is nevertheless to be expected that questions will arise from time to time between the Boards on the one hand, and sections of buyers on the other, which they may be unable to settle to their mutual satisfaction.

We have considered whether it would be desirable to invest the permanent Commission with arbitral powers to deal with all such

matters. On the whole we are of opinion that there would be no great advantage, and might be some definite harm, in doing so. The Committees of Investigation set up under the Agricultural Marketing Acts already provide the machinery for the independent investigation of complaints by distributors and manufacturers against the operation of marketing schemes. We have accordingly suggested that, while matters relating to prices and conditions of contract should no longer be within the purview of the Committees of Investigation, those Committees should still remain as the appropriate bodies to examine complaints on other subjects. We feel that some part of the influence of the permanent Commission might be lost if that body were frequently called upon to give binding decisions on questions in dispute between different interests.

(iii) Co-ordination of Manufacturing and Distributive Interests in Great Britain.

The methods of fixing prices for manufacturing milk that we have proposed should be generally effective in preventing unequal competition between individual manufacturers in different parts of the country. In Scotland, however, the main Board is already responsible for the manufacture of fully one-half of the total output of manufactured milk products. In England the Board's share in manufacture is still small, but is increasing. It is obviously desirable to provide machinery for ensuring equity of treatment as between the Boards and other manufacturers.

If the proposed Milk Products Marketing Board for Great Britain is set up under the Agricultural Marketing Acts, one of its functions will, no doubt, be to control, in such measure as may be agreed by its constituents and approved by Parliament, the prices at which the regulated products shall be sold. The milk marketing Boards themselves, as manufacturers of milk products, would be registered under the secondary scheme in common with all other manufacturers.

The relationship between the Milk Commission and a secondary products Board will depend to some extent upon whether the Boards responsible respectively for the primary and secondary products desire to join their interests through the constitution of a development board under the Agricultural Marketing Act, 1933. Some of the powers which we have recommended should be exercised by the Commission, including that of fixing prices and terms of contracts, are powers which might, in the case of other commodities, become exercisable by a development board set up under the Act of 1933, and we think that, if it seemed desirable, some of the other functions appropriate to a development board might suitably be undertaken by the Commission. In any case, it is clear that the closest collaboration should exist between the Commission and any secondary board or development board that may be set up. One way in which this might be secured, in the event of a development board being established, would be by selecting some or all

of the independent members of that board from among the members of the Commission. As the situation is still undefined, however, we think it would be inadvisable to attempt to offer any detailed recommendations on this subject; the question of the machinery of co-ordination must await the outcome of the proposals now under consideration.

We have pointed out at an earlier stage that there are no legislative provisions under which distributors could set up a board exercising powers comparable with those of the milk marketing Boards or of the proposed Milk Products Board. In the next Chapter we express our views as to the need for some form of reorganisation of distribution and as to the part that should be played by the Commission in promoting such improvements as may be found necessary.

(iv) Co-ordination between Great Britain and Northern Ireland.

It is necessary to give separate consideration to the question of co-ordination between the interests of the milk industry in Northern Ireland and in Great Britain, first, because the milk marketing organisation of Northern Ireland is distinct from that of all other parts of the United Kingdom, being based on different legislative provisions; and secondly, because substantially the whole of the interest of Northern Ireland in the milk market of Great Britain is in relation to milk products, not to liquid milk. Co-ordination will be concerned mainly with the methods of using any fund that may be made available by the Government for the assistance of the industry; with the problems associated with the marketing of milk products; and with other issues of interest to the United Kingdom as a whole.

In the allocation of such funds as may be placed at the disposal of the permanent Commission by the Government, the Commission will, of course, have regard to the needs of Northern Ireland equally with those of England and Wales and of Scotland. Because of the differences in the circumstances of the three parts of the country, however, the Commission may find it impracticable to apply one plan uniformly throughout the whole of the United Kingdom. For example, though the system of milk marketing in Northern Ireland provides for the subsidisation of manufacturing milk by the liquid milk market, it does so in a different way from that which has developed under the two larger schemes operating in Great Britain. In the formulation, therefore, of the proposals which the Commission will place before Ministers in the form of annual estimates, it will need to consult with the appropriate authorities in Northern Ireland in the same way as with the marketing Boards, the distributors and the manufacturers in Great Britain.

As we have already indicated, the precise nature of the arrangements to be made to secure collaboration between the interests of manufacturers of milk products in different parts of the United Kingdom will depend largely upon whether a secondary products

Board is established in Great Britain to regulate the marketing of such products. If a Board is set up in accordance with the proposals that are under consideration, the question of permanent arrangements for co-ordination with Northern Ireland in relation to the marketing of milk products will be primarily one for that body to consider in conjunction with the secondary products Board recently set up in Northern Ireland. We suggest in the following section that, in the meantime, the provisional arrangements for the exchange of views and the settlement of policies should be continued.

(v) Co-ordination with other Interests.

Current problems of marketing manufactured products.—In the past it has been the practice of the milk marketing Boards in Great Britain to take a prominent part in convening meetings of representatives of manufacturers of milk products to seek solutions of the difficulties that have arisen regarding the marketing of those products. In view of the interest of both Northern Ireland and the Irish Free State in the Great Britain market, for cream and butter especially, their representatives have generally taken part in these meetings.

For the reasons we have already given, it is impossible at this stage to foresee the developments that may take place in the organisation of the milk manufacturing industry or, therefore, to envisage the precise lines on which collaboration between interests should proceed. We suggest, however, that the standing Co-ordination Committee, whose establishment we recommend earlier in this Chapter, should, for the time being, be responsible for arranging any meetings of this kind that may be necessary. For the purpose of considering matters of common interest to manufacturers supplying the Great Britain market, the personnel of the Co-ordination Committee would, of course, be supplemented by representatives of all the interests likely to be affected.

Organisation of supply.—We feel that there may be still wider opportunities for the permanent Milk Commission to bring together the interests of the different parts of the United Kingdom and those of Dominions and foreign countries supplying the home market. It is possible that much might be done by co-operative effort on agreed lines to plan for the supply of the home market on a basis that will be advantageous to all parties. If it is not found practicable to deal with a matter of such wide importance entirely on voluntary lines, the Commission, aided by its contacts with all sections of the industry, should be in the best possible position to assist the Market Supply Committee in presenting proposals to the Government designed to secure the orderly supply of the home market.

Relations with other commodity Boards.—At an early stage in the development of the agricultural marketing Boards it became apparent that there were many matters which might call for

concerted action and co-ordinated policy on their part. The Reorganisation Commission for Eggs and Poultry for England and Wales mentioned in their Report* some of the subjects that seemed to require joint consideration. In response to the obvious need, a Marketing Boards Co-ordinating Committee had, in fact, been set up before that Report was made and has, we understand, already been able to assist in the solution of some points of common difficulty. It is not necessary, therefore, for us to make any recommendations on this subject; but we desire to record our view that there is a wide field of service for a body of this character.

Public relations.—We are also in complete agreement with the views expressed by the Eggs and Poultry Commission for England and Wales regarding the importance of maintaining close contact, not only between the Boards and all sections of their registered producers, but also between the Boards and the general public. We doubt whether the agricultural marketing boards have fully appreciated the significance of their relations with the public. The success, if not the very existence, of any marketing scheme must depend ultimately on the reactions of consumers and of public opinion. The Boards should, therefore, in the interest of producers, see to it that the public is kept fully informed of their actions and is alive to the motives that influence them; and, on the other hand, the Boards should understand and meet the criticisms that are bound to be directed at the schemes. The fullest publicity should be sought, and well-informed discussion and comment should be welcomed.

We have proposed that the permanent Commission should be responsible for the framing of the production policy for milk and for determining prices in conformity with that policy. The Commission will need to keep in close touch with the general public as well as with the industry. We consider that the function of maintaining harmonious relations with public opinion is very important; in order to perform it successfully, the Commission should be prepared at all times to give full and frank explanations of its work and policy.

CHAPTER 29.—FUTURE MILK POLICY.

We have given a number of indications in earlier Chapters of what, in our view, should be the general aims of policy in connection with the production, consumption and manufacture of milk. We have recommended that an independent body should be set up—the permanent Milk Commission—which should be responsible, under the Government and with the co-operation of the producers' Boards and of other organisations, for planning for the increased efficiency of the various branches of the industry, both in their own interests and for the public advantage. Our hope and belief is that

* Economic Series No. 42, page 150.

the Commission will become an active force in the industry, first familiarising itself with all aspects of the production and marketing of milk, and then initiating and elaborating with the individual interests proposals for progress and reform.

In this Chapter we bring together our main recommendations affecting policy in relation to production, consumption and manufacture and add some further suggestions with regard to these matters and also with regard to distribution. For the most part our views are necessarily expressed in broad terms; but we hope that they may be of some service to all those who will be collaborating in the development of the industry.

(i) Production.

We have proposed that the production policy should be implemented through the price system. Not only would the total volume of production be controlled through the regional prices paid to producers; the location and seasonality of production would also be influenced through prices; and quality improvement would be encouraged in the same way.

Location and seasonality.—We have suggested that policy designed to influence the location of production should be guided by two main considerations. The first is that the ultimate aim should be to secure that milk is produced where production can be undertaken most economically, having due regard to the costs both of production and of transport; the second is that any necessary transition should be gradual, so as to avoid undue hardship to individual producers. The practical application of these principles would rest with the Commission, in consultation with the Boards.

The seasonal incidence of production is important because of its effect upon the direct costs of production and also because of its effect upon the average value realised for the milk sold. It will be necessary to consider at what point the advantages of more level supplies are outweighed by the additional costs of production, and whether seasonal production ought not in any case to be encouraged for special purposes in certain regions.

Quality.—Variations in quality should become a more important consideration in determining differentiations in price. We suggest that the long-term policy in relation to quality should be to establish a system of standardised grades, covering all sales, and progressively to raise the minimum standard of milk permitted to be sold for liquid consumption. The advice of the Commission should be of great value to the Government in the preparation of any special legislation that may be required.

One step in the improvement of the quality of milk might thus be to prohibit, as soon as possible, the sale for liquid consumption of milk which falls below the Accredited standard unless it is efficiently pasteurised. At some future stage we hope it may become possible to secure that all milk for liquid consumption comes

from tuberculin-tested cows; but, according to our information, this would not be practicable until, through a national scheme of testing, selection and breeding, the proportion of tubercle-free cows in the national herd had been very greatly increased.

It is essential to any comprehensive system of grades that control and inspection should be efficient and uniform throughout the country. To judge from the complaints that we have received, there have been marked differences in the standards required in different parts of England and Wales for the premises and equipment of Accredited milk producers. So long as the enforcement of the conditions attached to graded milk licences and kindred matters are left to a large number of local authorities, each of which makes its own arrangements and sets its own standard, anomalies are bound to arise. According to the evidence given to us, there are serious differences in the interpretation of the regulations and in the attention given to their enforcement.

The Grigg Commission, in drawing attention to this problem, recommended that, as a minimum, all counties and county boroughs should appoint whole-time Chief Veterinary Officers, who should be responsible for all supervision incidental to the various regulations and Orders, and whose work could be co-ordinated through the machinery of central government.* We agree that a system of this sort would be a great improvement upon the present arrangements: but as a result of our study of the Northern Ireland milk marketing plan, we have been much impressed with the advantages that have followed the establishment of a central veterinary service. We recommend, therefore, that the possibility of instituting a similar service in this country should be seriously considered.

Herd improvement.—The Commission must be concerned with any plans for the veterinary control and the eradication of tuberculosis, not only on account of the importance to the consumer of tubercle-free milk, but also because of the effect of this disease on the cost of milk production.† From the point of view of health it is of the greatest importance that the supply of tubercle-free cattle should be increased as rapidly as possible. This presents some formidable problems; but possibly a suitable plan of campaign might be to concentrate on districts in turn, subjecting them to strict measures of control. We recommend, however, that the Government should call upon the Commission and the Boards to assist in examining the possible methods of dealing with tuberculosis in the dairy herds, including the problems of compensation that would be involved.

We are of opinion that the work of the County Milk Recording Societies and of the National Council has been of considerable

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* Economic Series No. 38, page 93. Somewhat similar recommendations were made in the Report of the Committee (of the Economic Advisory Council) on Cattle Diseases, Cmd. 4591, page 67.

† See Report of the Committee (of the Economic Advisory Council) on Cattle Diseases, Cmd. 4591, page 52.

value to the industry and deserves encouragement. We recommend that the Boards, together with the agricultural departments for England and Wales and for Scotland and with the Societies, should consider methods of extending and developing the practice of recording milk and butter-fat yield.

The price system proposed and the manner of its application should do much to stimulate efficiency and economy in the production of milk. But there are various other ways in which efficient producers might be encouraged. The Commission will, no doubt, give the Boards every possible assistance and will endeavour to make funds available for any approved plans designed to raise the standard of the dairy herd and to improve in other ways the technique of production.

(ii) Assembly and Distribution.

The future development of assembly and distribution is not a matter which falls strictly within our terms of reference. We have felt bound, however, to give some consideration to this subject, since we have formed the opinion that the greatest scope for a general reduction in retail prices lies in the better organisation of the various processes included under these heads.

The problems.—The expensive methods of distribution generally, the lack of co-ordination in wholesale distribution and the enormous overlapping in the retail field, all of which add to the price charged to the consumer, have been the subject of comment by a number of independent bodies which have had occasion to examine conditions in the milk industry, including the Linlithgow Committee on the Distribution and Prices of Agricultural Produce,* the Grigg Commission† and, more recently, the Committee of Investigation for England‡ which inquired into the complaints of the buyers against the contract prescribed by the English Board for 1935-36. This consensus of opinion has been supported by facts and figures that have come before us incidentally in the course of our investigation. We believe that substantial economies could be made both in the processes of distribution and also in the assembly and transport of milk.

Producers frequently point to the fact that the distributive margin, excluding collection and transport costs, is approximately equal to, and often even greater than, the net price which the producer receives. In the absence of comprehensive data on distributive costs it is impossible to say whether this relationship is justifiable, but we strongly suggest the desirability of investigation. It is generally accepted that distributors' margins, which are practically uniform in any given area, are determined in relation to the most expensive types of service given, and often in relation to services that are not required by large sections of the population; and

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* Cmd. 1854. † Economic Series No. 38.
‡ Report dated 2nd April, 1936.

further, that the costs of performing the same type of service vary widely between individual businesses. At the same time there is duplication and lack of co-ordination at every stage of distribution. While the current margins may be necessary under existing conditions, we are satisfied that they could be greatly reduced if the trade were reorganised on a more efficient basis.

Although we do not propose to enter into the subject in great detail, it is desirable to review in broad outline the present position in regard to the assembly of milk, its wholesale handling and its retail distribution.

In recent years a number of collecting depots have been established at great distances from the liquid milk markets they serve, while milk produced nearer the towns is being manufactured. We have already suggested (in Chapter 19) that the aim of improvements in transport should be to supply the main consuming centres from the producing areas nearest to them and to keep creameries and factories as far as possible in the more remote districts. If it is still necessary to bring any milk long distances to consuming centres, this should be done through suitably placed country collecting and processing depots so as to secure the economies of bulk transport. Even where towns can draw supplies from within a relatively small area, the establishment of country collecting points may sometimes lead to economies.

The wholesale organisation of the milk trade in towns is incomplete and haphazard. In some places retailers must obtain their supplies direct from the producer because of the lack of wholesale facilities; in others they are able to make use of town wholesale depots if they so desire. In the most important towns the larger and more progressive retail firms often operate their own depots and use them not only for their own retail businesses, but also for supplying other retailers. If all urban supplies were concentrated in central wholesale depots, considerable economies could be made in processing, bottling and the cleaning of bottles and churns. In such depots the daily requirements of retail distribution could be balanced, and unsold supplies manufactured, more cheaply than is possible where each small retailer performs these functions for himself, while satisfactory supplies could be made available for those who engage only in retailing. Moreover, it is much simpler to maintain effective control over cleanliness and quality standards, and to ensure that the requirements of public health authorities are met and the preferences of consumers observed, if the milk is processed and bottled centrally.

In the retail field the existence of a large number of small and scattered rounds is a cause of high costs and of variations in the quality of supplies and services. It is possible to enter the business of retail distribution without much capital or experience, and the redundancy that can be seen in most cities and towns to-day is the result. It is obvious that the costs of delivery must be greater when a large number of roundsmen are serving the same street; and the

costs of equipment, premises and labour, and of balancing supplies, must all be higher with, say, ten 15 gallon rounds than with one 150 gallon round. We have been furnished by the English Board with particulars for a number of towns from which it appears that large numbers of retailers must have rounds of considerably less than 20 gallons and some of them rounds of 10 gallons or less. We understand that these conditions are not confined to any particular part of the country.

By way of contrast, we have been informed by the Northern Co-operative Society, Aberdeen, that they deliver an average of about 140 gallons on their rounds, each of which is served by a single van attended by a roundsman and several boys. It is understood that the total costs of distribution of this Society, which pasteurises and bottles the whole of its supply, do not exceed 6d. per gallon. This low cost is ascribed to the large turnover, to the large gallonage delivered per round, to the system of pre-payment in use, to the practice of giving only one regular daily delivery and to the fact that some 20 per cent. of the milk is fetched by customers.

While we have not made any detailed inquiry into the conditions of retail distribution, these figures suggest that a considerable reduction in costs might be obtained by the elimination of redundant units.* The very existence of these unnecessary units serves to keep up the margin and tends to increase it. Because of the high costs caused by the duplication of services, many individual distributors are able to show that they need the present margins, or even greater margins, in order to make a reasonable profit. But the effect of any increase in margins must be to attract still more units into the business and so to create a vicious circle.

Proposals of Scottish distributors.—While the unsatisfactory features of the distributive organisation were referred to by many witnesses, very few of them offered definite suggestions as to the steps that should be taken to improve the situation. Some important positive proposals prepared by the Scottish Milk Trade Federation were, however, laid before us by the private distributors' associations represented on the Permanent Joint Committee under the main Scottish scheme.

These proposals envisaged the establishment of a statutory Distributors' Board and a Joint Milk Council similar to that recommended by the Grigg Commission. One of the functions of the Distributors' Board would be to organise distribution so as to eliminate the present wasteful competition in the distributive trade. A comprehensive system of licensing was suggested, which would be carried out under the direction of a " Licensing Court " including in its membership the independent members of the Joint Milk

* The Report of the Committee of Investigation for England on the complaints made against the Board's contract for 1935–36 contains some interesting passages bearing on the costs of distribution ; see, in particular, pages 19–23.

Council. Four different types of licence would be issued : one covering all phases of distribution and manufacture, another in respect of wholesale and retail distribution, a third for retail distribution only, and a fourth for the manufacture and sale of milk products. Without a licence no one would be permitted to engage in the distribution or manufacture of milk. In the first instance all applications for a licence received before a specified date would be granted automatically, but subsequently the issue of fresh licences and the renewal of licences would be at the discretion of the Licensing Court.

Under this plan the Distributors' Board would be responsible for zoning the area controlled by it and for formulating proposals to reduce the number of unnecessary or redundant businesses in any zone by the purchase of licences. Subject to the approval of these proposals by the appointed members of the Joint Milk Council, the Distributors' Board would proceed to negotiate with licence holders for the purchase of their licences. A licence holder would not be under any obligation to sell, but where a licence was sold, it would be cancelled. To finance this project, all distributors would be required to make a contribution to the Board on the gallonage handled by them at a rate per gallon approved by the appointed members of the Joint Milk Council.

It is interesting to note that certain of the features of these proposals are already incorporated in systems of milk supply organisation which are now in operation in a number of towns in the Dominions and in foreign countries.

The essentials of reform.—The purely technical aspect of reorganising the liquid milk supply service on a more efficient and economical basis does not appear to present any insuperable difficulties. The main objectives appear to be, first, to secure economies in country assembly and transport; secondly, to concentrate in wholesale depots as many as possible of the operations involved in preparation for urban delivery; and thirdly, to prevent wasteful methods of retailing. It is the practical measures by which the necessary reforms should be secured that constitute the difficult problems.

The milk marketing Boards already possess powers which, if they could use them without regard to effects on individual producers and on other interests, would enable them to go some distance towards bringing about certain of the desired changes. They could, for example, refuse licences to country depots which were inappropriately placed for supplying the liquid milk market, and they could themselves establish depots where such facilities are needed but do not at present exist. They could also refuse direct contracts to producers situated near depots whose supplies could most conveniently be sent forward in bulk. Similarly the Boards might themselves set up town wholesale depots where the present wholesale organisation is defective; and where adequate depot facilities were available, they could refuse direct contracts to

retailers and thus concentrate the whole supply through the town depots. It is clear, however, that action by the Boards on lines such as these would be disturbing to a number of existing interests and that there would be serious grounds for complaint if wide powers affecting all branches of the milk industry were operated by Boards which are representative only of one branch.

There are several other ways in which the problem of organising the wholesale side of distribution might be approached. For example, public utility undertakings (on which distributors themselves could be represented, or which might even consist of amalgamations of existing businesses subject to suitable control) might be set up with responsibility for either country or town depots or both; or monopolies might be given to private companies under the direct supervision of some such body as the permanent Milk Commission; or, again, many progressive municipalities might be prepared to provide wholesale services in their areas.

As far as retail distribution is concerned, there are a number of relatively minor reforms which could be carried through at once with the object of reducing costs. The number of daily deliveries might be limited to one, as is already the case in many areas, with special provision for those consumers who were prepared to pay extra for more frequent deliveries. One result of this would be to reduce the demand for the relatively expensive half-pint bottle. It is possible that a change of this kind might be a little disturbing to housewives at first; but no serious difficulty should arise, since milk, if produced and kept under hygienic conditions, will remain sweet for several days. The method of prepayment, with or without the issue of tokens or tickets, might be introduced; or direct sales over the counter might be encouraged by a suitable price differential. Measures such as these could be applied immediately and voluntarily, and they would bring some amelioration of the position.

If the wholesale organisation were rationalised, so that processing and bottling were centralised, the next important objective would be to prevent the unnecessary multiplication of retail services. This might be done by allotting zones of distribution to retailers and by encouraging the amalgamation of rounds. Since such measures would restrict competition and limit the consumer's choice of supplier, it would be necessary to afford safeguards to the consumer and, especially, to ensure that all milk reached a high standard of cleanliness and quality. These points could not be met unless milk for liquid consumption had to be sold under prescribed grades and these were effectively controlled. A comprehensive and efficient wholesale organisation, by means of which an adequate grading system could be operated, would therefore be essential before retail distribution could be reorganised on the lines suggested.

Under a system of zonal distribution the number of roundsmen serving each zone would be limited. The actual business of house-to-house delivery could be undertaken by small independent traders

or by branches of larger firms. In some cases there might be advantages in the former. In towns where the proportion of distributors to the population was large, however, it would be desirable, where possible, to bring about amalgamations of rounds, so that the average retailing unit would be larger. Not only would savings in actual cost be achieved, but it is reasonable to expect that, with a larger turnover, each retail unit could work to a smaller margin of profit; and it may be noted that any increase in consumption would reinforce this effect through its influence on average turnover.

If it were decided that some reduction in the number of retailers must be secured, there are several courses that might be taken. As a first step it would be feasible to fix standards governing such matters as equipment and methods of handling and, by raising the standards gradually, to remove the least efficient units from the trade. Though indirect action on lines such as these would be helpful, it would not necessarily contribute greatly to lower costs.

The systematic reduction of the number of retail distributive units would seem to call for a plan having as its specific objects the closing down of redundant businesses, or their amalgamation with others, and the control of the entry of newcomers into the trade. All distributors would have to be licensed, and the independent authority made responsible for licensing would refuse to issue new licences unless it were satisfied that the additional services were needed. Under any such scheme the special position of producer-retailers would require consideration. There appears to be no fundamental reason why the retail business of a producer should not be subject to licensing regulations similar to those governing other retail businesses. Similarly, producer-retailers might under certain conditions amalgamate their distributive rounds with advantage to themselves and to the industry generally.

The zonal system which was proposed by Scottish distributors is based upon the principles of licensing and of the elimination of unnecessary units which we have described. The suggestion made to us was that these principles should be applied by distributors themselves under independent supervision, but there are other ways also in which they might be applied. It may eventually be found that more drastic measures are needed. We have suggested that, in the wholesale field, a solution of the present difficulties might be found in the direction of public utility undertakings, or local monopolies under independent control, or municipal enterprise; and the possibilities of these may need to be considered also in relation to retail distribution.

The need for reorganising assembly and wholesale distribution on a major scale is apparent; but any general scheme of reorganisation must raise issues of great complexity. Detailed investigation is therefore necessary before the lines on which the changes should take place can be laid down. We accordingly recommend that the permanent Milk Commission should undertake this investigation and report on the whole question of the organisation of the milk

supply service, with particular regard to the economies that could be expected, the type or types of organisation that would be required for both wholesale and retail distribution, and the problems of equity involved.

(iii) Manufacture.

While the prices of butter and cheese remain at or about their present levels, the production in Great Britain of milk for manufacture into these products cannot be generally remunerative. Nevertheless there is no doubt that manufacture must continue. In the first place, our proposals do not contemplate a decrease in the volume of production; consequently the surplus beyond the requirements of the liquid market must still find an outlet in manufacture. Secondly, a reserve must always be allowed for the liquid milk market, and if the demand for liquid milk expands the reserve will have to expand with it. Thirdly, any large and immediate reduction of manufacture would create grave disturbance of existing interests. Finally, it may be decided that the production of manufacturing milk should be continued, as a matter of Government policy, in the interests of agriculture, or of the manufacturing industry, or in the general national interest.

So far as can be foreseen, there is every prospect that some part at least of the milk used for manufacture will continue to be disposed of at a price lower than that payable to the producers of it. The loss must be borne either by the State, or by producers, or by liquid milk consumers, and it is therefore imperative that both manufacture and the marketing of manufactured products should be organised as efficiently as possible, in order to reduce that loss to the minimum.

Manufacturing technique.—Consideration should be given to the question of whether the technical efficiency of manufacture is not capable of improvement. It is a striking fact that, after making allowance for exchange rates, the price paid for milk by creameries in Denmark in 1935 averaged 5·58d. per gallon. The great bulk of this milk is used in making butter, and the value of the remainder appears also to be governed by the butter price. Further, the Danish producer is entitled to the skim milk derived from his supplies. On the other hand, the average price realised in 1935 for milk sold for butter manufacture in England and Wales was 4·01d. per gallon, and it is maintained that supplies at this price did not afford manufacturers more than a reasonable margin of profit.

It is true, of course, that the Danish dairying industry is based primarily on manufacture, chiefly by co-operative undertakings. As a result a number of economies can be effected which might not be obtainable under conditions prevailing in Great Britain. Nevertheless it is possible that a survey of factory methods in Great Britain would reveal wide differences in the efficiency of manufacture. It is not only a matter of costs, but also of the quality, and thus the value, of the finished product. We consider that the

question of manufacturing efficiency, which should be regarded as including such matters as the location of factories, requires careful investigation and that the Milk Commission might initiate inquiry in this direction.

We have felt unable to urge the encouragement of farm butter-making, partly on account of the problem of administration and partly because, in general, it should be possible to produce standardised butter of high quality more efficiently under creamery conditions. These objections would not arise, and yet there would be less incentive to sell the milk off the farm, if arrangements could be made for cream to be separated on the farm and sold to the Boards for manufacture into butter at prices that would give producers approximately the same net returns as they would receive from the sale of milk. It is understood that the system of collecting farm-separated cream for making into butter is widely and successfully operated in New Zealand and that its application to the conditions of this country has already been given some consideration by the Boards. We suggest, however, that the possibilities offered by a system of this kind might be worthy of further exploration.

Utilisation of by-products.—An allied subject which should be re-examined by the Boards and the Commission is that of the utilisation of the by-products of manufacture. In Chapter 10 we expressed the opinion that the most economic use for skim milk, especially, is in feeding to livestock, but we drew attention to certain technical difficulties which arise when manufacture is concentrated in factories. These difficulties would be entirely avoided if it were found possible to arrange for the separation of cream on farms; but even if that were not found practicable, it should still be possible to arrange for the return of pasteurised skim milk to farms, as is done in a number of other countries.

The provision of skim milk for stock feeding is of great importance from the point of view of the livestock industry. It is a disadvantage of the schemes, under existing arrangements, that the quantities of whole or skim milk used for stock feeding are liable to be reduced as a result of the increased sales of milk off farms. Any such change in farming practice will react adversely on the quality and quantity of livestock produced. There is already some danger that the future supplies of dairy and beef cattle may be affected; and the pig industry may also suffer as a result of a reduction in the supplies of skim milk available to feeders. It is, therefore, very desirable that the problem of disposing of by-products should be considered from the point of view of farming economy as a whole, and not from that of dairy farming alone.

Marketing of milk products.—It is clearly desirable also that the markets for the higher-priced products should be fully exploited. To this end we have recommended that the Commission, in fixing prices for manufacturing milk, should use its discretion to modify the system of realisation values so as to give more encouragement

to the production of the commodities returning the highest prices for the milk used in them. Cream seems to us to be an example of a product whose consumption might be greatly expanded with advantage to producers and manufacturers, as well as to consumers. The limiting factor here appears to be the high retail price.

In recent years distributors have shown some tendency to develop the sale of cream by selling " half " cream and " coffee " cream at lower prices; and we have been furnished with details of cases in which a heavy reduction in the distributive margin on ordinary cream was made with satisfactory results to the distributor because of a greatly increased turnover. But in general the retail price of cream is out of all proportion to the price of the milk from which it is obtained, and the high price must greatly restrict demand. We recommend that the Commission should carefully consider the means by which a reduction in the retail price of cream could be secured. This would become much easier if compulsory standards for cream were introduced; and we understand that the introduction of such standards has for some time been under active consideration.

We have stressed elsewhere the importance of preventing the waste of skim milk, but we wish also to point out that this by-product is a valuable foodstuff for human consumption. Any action which would tend to make it less readily available to consumers is to be deprecated.

The marketing of home dairy produce generally is haphazard in comparison with that of imported products. The application of quality standards for butter, cheese and cream should make it easier to provide buyers with regular supplies of consistent quality and so should assist materially in strengthening demand. National Mark grading schemes for several varieties of cheese and for creamery butter have been introduced in recent years. The extension of grading on the present voluntary basis, or, better still, on a compulsory basis under a milk products marketing scheme, should be of great help to the home industry.

(iv) Consumption.

To increase the consumption of liquid milk is one of the main objects of our recommendations, and the method by which this should be achieved consists primarily in the lowering of liquid milk prices. In expressing this view we do not lose sight of the value of educational propaganda. But this aspect of the subject is already receiving so much attention that it seems unnecessary for us to dwell upon it. If, however, it is to be fully effective it must, in our opinion, be coupled with attractive prices.

Economies in production, transport and distribution should, in due course, lead to reductions in the price paid for milk by consumers. But in order to obtain an immediate lowering of this price,

we have proposed a policy of assistance from State funds. This consists of two parts, which differ essentially in principle. One is that the liquid milk market generally should be relieved of the burden placed upon it by the production of milk for manufacture. The other is that, as a measure of social policy, the State should subsidise the supply of liquid milk to some of those sections of the community who are most in need of it. In the following paragraphs we offer some suggestions in the latter respect and regarding price differentiation generally.

Differential prices to purchasers.—Quite apart from the provision of subsidised milk to special groups, a system of differential prices might prove to be justifiable on purely commercial grounds. It is a common practice in the marketing of certain commodities to charge differential prices, adjusted to the strength of the demand from different sections of consumers, with the object of increasing the total net revenue from sales. In milk marketing there is already differentiation between liquid and manufacturing markets and further differentiation between the various manufacturing outlets. There is no obvious reason why some limited system of differential prices should not be feasible in the marketing of liquid milk.

It would be undesirable, however, that the stronger sections of demand should be exploited on the principle of " charging what the traffic will bear." The highest price should be the price fixed on the principles we have suggested; and any differentiation should be in a downward direction from this. In order to be justified as a business venture under these conditions, a differential price system would have to divert milk from the manufacturing to the liquid milk market in sufficient quantities to increase the total net revenue from the sale of milk.

If it can be shown to be profitable on purely commercial considerations to sub-divide the liquid milk market in this way, the State would, under our proposals, have an added interest in encouraging a system of differential prices. For besides increasing the consumption of liquid milk, which is desirable on grounds of general policy, a system of differential prices would then also reduce the amount of subsidy required in order to maintain a given level of producers' prices.

The success of any differential price system, whether subsidised or not, must depend, in the first place, on how far those consumers whom the price reduction is intended to attract are actually induced to increase their purchases. If the buying habits of these consumers are to be influenced to any marked extent, a considerable reduction from the normal retail price would probably be necessary. In many cases, if no subsidy were available, it would only be practicable to make a sufficient reduction if substantial economies could be made in distribution.

Secondly, a differential price scheme, whether subsidised or not, must depend for its success on the administrative conditions; that

is, on how far it is possible in practice to prevent those consumers who are not intended to benefit by the scheme from buying at the lower price. The method of distribution is, again, important in this connection.

We have given some thought to the possible methods of operating differential price schemes, both on a subsidised and on a self-supporting basis. They appear to fall into three general types.

Differentiation by groups.—In the first place, sales might be made at special prices to clearly defined groups of consumers. A working example of this is the Milk-in-Schools scheme, the scope of which might be still further extended. Other groups to which milk at special prices might suitably be made available on grounds of social policy (and therefore on a subsidised basis) are children under school age and nursing and expectant mothers. Groups among which the sale of milk at special prices might profitably be developed on a commercial basis are workers in mines, factories and offices, the milk being consumed at their working quarters and not in their homes.

Where the special groups can be segregated, as in the case of schools, factories or clinics, the administration of a differential price system is comparatively simple; further, considerable economies are possible in distribution, and the sales at the special prices are not likely to have much restrictive effect on domestic consumption. Where the special groups cannot be segregated, distribution through the normal channels of trade would have to be controlled through some system of registration or by the issue of vouchers, and there might be some consequent reduction in the quantity purchased at the normal price.

Differentiation by areas.—A second possibility would be to arrange for specially reduced prices in particular areas. This system would hardly be equitable as a basis of subsidised differential prices; but it might well be good business to charge prices rather below the normal in certain areas, e.g., in depressed industrial districts in which it is known that consumption is now subnormal, if the local distributors could be persuaded to make some reduction in their margin, as would seem reasonable in view of the prospect of obtaining increased sales.

Differentiation according to distributive services.—The third method of working a differential price system is to discriminate between buyers simply by charging a lower price for a less elaborate distributive service. Differentiation on these lines would not, of course, segregate consumers strictly according to their capacity to pay; but on the whole it is probable that most persons who chose to buy at the lower price, if it were coupled with a much simpler distributive service, would be those who cannot afford to buy sufficient milk at present prices.

Our recommendation to free retail prices might have some influence in this direction. It is possible that, as a result of it, milk

might be sold more cheaply over the counter than if delivered, on account of savings in distributive costs. From evidence we have received it seems doubtful whether the saving in costs would be considerable; much would depend on the volume and regularity of the sales from the shops. Unless, therefore, arrangements could be made also for the shop-counter supplies to be purchased at a wholesale price below the ordinary wholesale price, the amount of differentiation in the retail price would probably have to be small; and on the other hand, administrative difficulties would arise if retailers were able to buy at two levels of prices, one being applicable to milk for sale over the counter and the other to milk to be delivered.

The most practicable system would probably be to concentrate all sales of low-priced milk at selected shops or depots. If these sold milk at cheap rates only over the counter it would be possible to supply them at special wholesale rates. If, however, they were to undertake the supply of milk at cheap rates side by side with their delivery business, they might be required to pay the normal wholesale price for the whole of their supplies, but be given an annual grant on condition that they sold over the counter at a fixed low price and advertised prominently in the shop window that they were doing so. The amount of the payment need not be the same for each shop; it could be varied according to the size and situation of the shop, that is to say, according to some general estimate of the volume of trade in milk which the shop might expect. Furthermore, the shops in any particular neighbourhood might be asked to tender, in other words to state the annual sum in consideration for which they would be prepared to sell their milk at a lower price over the counter. These tenders could then be considered in the light of the size, character and locality of each shop, and the most favourable among them could be accepted.

If the price fixed for milk bought over the counter were very low, safeguards might have to be introduced with the object of preventing the purchase at such shops of large quantities of milk, not for consumption by the persons purchasing them, but for re-distribution at a profit. But the probability is that the price would not be low enough to encourage this: any person wishing to re-sell would do better by buying on wholesale terms.

Whether the lower retail price was made possible by a reduction in the wholesale price or by an annual payment to the shops concerned, the system of distribution suggested above might be worked either as a special social service with the aid of State subsidies, or purely as a business enterprise financed by a Board.

Experiments in differential prices.—We recommend that the Milk Commission should carefully examine these and other possible systems of differential prices, both of the subsidised and of the strictly commercial type. Without expressing any opinion as to the prospects of success of schemes on such lines as we have suggested, we consider it most desirable that experiments of this kind

should be made in order that the possibilities and limitations of differentiation may be made clear. Much will obviously depend on the public response to these experiments.

With certain types of schemes (e.g., the Milk-in-Schools scheme) the administrative conditions would be fairly simple, and a scheme, when decided upon, could at once be generally applied. But in other cases it might be necessary to make local experiments before schemes could be approved for more general application. We recommend that the Commission should assist in the planning and conduct of such experiments and should advise on future action in the light of their results. In this, as in other questions, the Commission would be in the closest possible consultation with the Boards. If a system were to be on a subsidised basis and were therefore to be regarded as a social service, the Government might themselves wish to take the final decision as to what groups should benefit; but they would no doubt act in close co-operation with the Commission.

Any action that can be taken to increase liquid milk consumption will effect a transfer of milk now sold for manufacture at subsidised prices; and even if the greater consumption of liquid milk has to be secured at some cost to the State, the transfer may still constitute a definite gain from the national point of view.

CHAPTER 30.—SUMMARY AND CONCLUSION.

(i) Summary of Recommendations.

In this final Chapter we bring together the principal recommendations that we have made regarding the organisation of the milk industry, but in a somewhat different order from that in which they have been presented in the body of the Report.

We do not attempt to summarise the reasons for these conclusions. But it is perhaps desirable to repeat that the objective throughout is to provide the central machinery for the development and control of a national milk policy based upon the expansion of the liquid milk market, the economical production and distribution of the nation's milk requirements and the fair remuneration of all sections of the industry.

(a) The Milk Commission.

We recommend (page 240) the establishment of a permanent Milk Commission, consisting of a Chairman and four other members, appointed jointly by the Ministers responsible for agriculture in England and Wales and in Scotland, after consultation with the Ministers responsible for the other interests affected (page 243).

The proposed Commission will become a central authority for the milk industry as a whole and as such will advise the Government on questions of milk policy (page 239). The Commission will be independent and impartial, but will, of course, operate in conformity with Government policy. Its chief functions, in collaboration with

the producers' Boards and the organisations representing other interests, will be to plan a production policy capable of meeting the nation's needs and to implement that policy through the medium of prices, and to frame measures for stimulating the consumption of liquid milk. It will administer any funds made available by the Government for the assistance of the industry (page 241); it will fix both producers' prices and buying prices (page 240); and it will be responsible for the co-ordination of the various interests concerned and for promoting the general progress and welfare of the industry. The administrative expenses of the Commission, including the salaries of the Chairman, the other members and the staff, will be borne either as a first charge upon the Government fund which it will administer, or as a separate item in the vote of the Ministry of Agriculture and Fisheries (page 244).

The Commission will submit annual reports to Parliament, through the appointing Ministers, and will be free to make representations to the Government on any matter connected with the milk industry. It will be available to furnish advice or special reports if so requested by Ministers (page 242).

(b) The Producers' Boards.

Functions of the Boards.—We recommend that producers' Boards should continue to form an important integral part of milk marketing organisation. Apart from the important alterations in the pooling system involved in the new price-fixing proposals, the general executive functions of those Boards will remain practically untouched (page 247). It will be their duty to collate information and statistics and, on the basis of these, to submit to the Commission detailed proposals as to prices and contract terms. The legal prescription and the enforcement of the prices and terms of contracts approved by the Commission will also remain with them. They will represent producers corporately and keep them informed of their current obligations and rights. They will collect payments from buyers of milk and pay producers the prices fixed by the Commission.

The Boards will possess financial autonomy in regard to their administrative funds (page 248). They will be free to continue their manufacturing activities. Under the revised system of allocating transport charges mentioned later, it will be possible to reduce transport, and thus transport costs, to a minimum; and for this and other purposes the Boards will need to control the flow of supplies. We suggest (page 249) that they should consider the desirability of introducing the " revolving fund " method of capitalising their assets.

Constitution.—We recommend (page 251) that there should be two milk marketing schemes in Great Britain, one for England and Wales and the other for the whole of Scotland. For administrative purposes scheme areas should continue to be sub-divided into regions. We do not suggest any changes in the boundaries of the regions

in England and Wales; we have put forward suggestions (page 252) for the regional division of Scotland.

We propose (page 254) that the English Board should consist, as at present, of 17 members, 12 of whom would be elected by the regions. The five remaining members would be co-opted, and the Market Supply Committee should be consulted in the selection of three of these members. The Scottish Board should consist of 11 members, eight elected by regions and three co-opted; and the Market Supply Committee should be consulted in the selection of two out of the three co-opted members.

We recommend (page 256) that the postal vote should be used in all elections of members to the Board and to the regional committees; and we make some further proposals for amendment of the present electoral procedure. We suggest (page 255) that in the selection of co-opted members consideration should be given to the interests of any groups of producers who may not be sufficiently represented on the Board.

We recommend (page 259) that, instead of general meetings of all producers registered under a scheme, general meetings should be held within each region, followed by a meeting of the committees for all the regions within each scheme area. These joint meetings of regional committees will be responsible for approving accounts, determining the remuneration of the Boards and dealing with resolutions sent forward from the regional general meetings. We also propose (page 257) that greater use should be made of the regional committees in the administration of the schemes. We recommend that each Board should be required to set up a producer-retailers' advisory committee (page 257).

Co-ordination.—We recommend (page 263) the establishment by the two Boards and the appropriate authorities in Northern Ireland of a standing Co-ordination Committee consisting of four representatives of the English Board, three of the Scottish Board and two of Northern Ireland, with an independent chairman chosen by the members. We suggest that there should be close collaboration between this Committee and the Commission.

(c) Fixing of Prices.

The two general principles which should govern the fixing of milk prices are:—

(i) that both producers' prices and buying prices should be adjusted according to a defined policy and their levels determined, not by a process of bargaining, but on the basis of past experience and future estimates (pages 219 and 229);

(ii) that the Boards and the appropriate organisations of other parties interested should submit detailed proposals as to prices to the Commission, but that the prices to be prescribed by the Boards should be determined by the Commission (page 240).

We have thought it undesirable to provide for any appeal to a higher tribunal against the terms fixed by the Commission (page 241).

Producers' prices.—We do not favour any form of direct quantitative control of production or sales. We recommend (page 220) that prices to producers should be fixed in advance for the several regions at levels estimated to be sufficient to bring into the market the quantities of milk required from those regions. The prices payable to producers will thus continue to vary according to regions. These prices will not be affected by changes in the proportions of the regional output sold respectively for liquid consumption and for manufacture. In the first instance the requirements from each region should not be less than its current volume of production. The long-term aim, however, will be to encourage production in those regions where milk can be most economically produced, though this aim should be pursued gradually in order to give full time and opportunity for the necessary adjustments to be made.

Quality bonuses will be payable to all producers attaining prescribed standards, whether or not all of the milk of the higher grades can be sold at higher prices (page 222). Producers' prices will thus vary according to quality. They will also vary seasonally in order to encourage the measure of levelness or seasonality of supply that the Commission's production policy requires (page 221).

A small allowance will be made for administrative expenses before producers' prices are fixed. The regional prices announced in advance will then be subject only to deductions on account of transport (page 224). Level delivery premiums paid by a buyer should accrue to the individual producer supplying him only if the whole of that producer's sales are made on level delivery terms; otherwise they should accrue to the Board. Premiums for other special services should continue to be payable, in addition to the regional price, to those producers whose contracts with their buyers provide for them (page 222).

Producer-retailers' contributions.—We recommend (page 225) that the contributions payable in respect of their retail sales by those producer-retailers who dispose of their surpluses through the Boards by selling them on open contracts should consist of the small levy for administrative expenses, the levy for those quality bonuses for which producer-retailers will be eligible, and approximately seven-eighths of the sum (contained in the selling price of liquid milk) representing, in effect, the contribution per gallon of liquid milk towards the loss sustained in disposing of the reserve to the liquid milk market. The contribution of those producer-retailers who sell milk only by retail, or only by retail and on wholesale contracts carrying level delivery premiums, should be reduced by the amount of the normal level delivery premium. In both cases the contribution, which should be rounded off to a convenient figure, should be at a flat rate throughout the year and for each scheme area as a whole.

Producer-retailers who sell by wholesale, but only on contracts carrying level delivery premiums, should be entitled to receive the premiums paid by their buyers. All producer-retailers should be eligible for quality bonuses corresponding to those at present payable on Accredited milk under the English scheme.

Producer-wholesalers.—We consider it undesirable that the prices payable to producers should be differentiated according to the size of their buyer's business, and we recommend, therefore, that producer-wholesalers, for whom special provision is at present made in two of the Scottish schemes, should cease to be treated as a special class of producers (page 227).

Wholesale prices of liquid milk.—The liquid milk market should be relieved of the burden of loss sustained on the sale of surplus milk for manufacture. We recommend (page 211) that this burden should be taken over by the State.

In principle the only loss that the liquid milk market should be required to bear in respect of surplus supplies is that sustained in disposing of the reserve necessary to assure the liquid market of an adequate supply at all times. In practice, however, if State grants were insufficient to cover the whole of the loss in disposing of surpluses, wholesale buying prices of liquid milk would have to be fixed at such a level that the income from its sale, together with receipts from other sources, would meet the payments due to producers (page 231).

There should be power to fix wholesale prices at different levels in different regions and also to vary prices according to quality grades (page 232). The price should in all cases be a delivered price.

In addition to the normal buying price, level delivery premiums at a rate set out in the contract should be payable by buyers requiring level supplies. The amount of any premiums for other special services should be a matter for individual arrangement between producers and buyers concerned (page 233).

Wholesale prices of milk for manufacture.—We recommend (page 233) the continuance of the method of fixing prices for manufacturing milk by reference to the realisation value of the manufactured products; and we propose that, wherever practicable, they should be fixed on a formula basis. The prices should be related as closely as possible to realisation values, subject to such modifications as may be desirable in order to encourage the manufacture of those products yielding the higher returns to producers (page 235).

Retail milk prices.—We recommend (page 235) that, in general, neither retail prices nor distributive margins should be fixed, but provision should be made for maximum retail prices to be fixed by the Commission for any area in which an unduly high price was maintained, and for these prices to be enforced by the Boards through their contracts. We make proposals (page 236) designed to reduce the possibility of intermittent price-cutting.

(d) Government Assistance.

We recommend (page 210) that financial assistance should be given by the Government to encourage the consumption of liquid milk. Any money which the Government are prepared to allocate for this purpose should be used in relieving the liquid milk market from any burden in respect of surplus milk and in providing supplies at specially low prices to those classes of consumers which need milk most.

We estimate (page 214) that for the first of these purposes some £5 million per annum might be required in the first instance. In 1934-35 the Government contributed £1¼ million under the Milk Act to make up losses on the sale of manufacturing milk, and an addition to this sum of about £3¾ million might be needed. We give reasons for expecting that the annual sum required will be less in future years (page 215).

As regards the special reductions to consumers, we suggest (page 280) certain lines of approach but do not put forward detailed plans or suggest the amount of public funds that should be made available, since these are matters of social policy which are beyond the scope of our inquiry (page 218).

(e) Transport and Distribution.

Transport and transport charges.—We recommend (page 224) that, as a corollary of pooled returns from the sale of milk, transport charges should be pooled on a zone basis. The Boards would assume liability for all transport costs and would recover the money by deductions from individual producers assessed according to the zone in which their farms were situated. Producers near the main markets would be liable to smaller deductions, and thus would receive higher net returns, than those less favourably placed. We have indicated the general principles on which provision should be made in the schemes for systems of zoned transport charges.

This system of allocating charges for transport will, under the proposed price structure, enable the Boards to re-arrange contracts, in order to reduce unnecessarily long hauls or cross transits, without affecting the returns to individual producers.

Reorganisation of distribution.—We recommend (page 276) that the permanent Commission should make a detailed investigation into distributive organisation. In general, we consider that, as soon as possible, all urban markets should be supplied through town wholesale depots ; that where such depots are at present lacking or are insufficient to meet local needs, new depots should be set up ; that all processing and bottling of milk should be centralised in these depots ; and that country collecting depots should be established or maintained only where they are necessary to the organisation of supply.

The organisation of the wholesale trade and the standardisation of supplies are necessary preliminaries to the lowering of the costs of distribution on any satisfactory basis (page 274). We make

certain tentative suggestions (page 275) as to the manner in which reforms in the retail trade might be brought about, if necessary, when the preliminary conditions have been fulfilled.

(f) Additional Recommendations.

Improvements in production.—The Commission should encourage efforts to lower the costs of production through improved methods, and price differentials should be used to provide suitable incentives to higher standards of quality and cleanliness in milk production (page 269). The problem of eliminating tuberculosis among cattle calls for early consideration (page 270).

Grades and grading.—We think it is important to secure uniformity in the administration of regulations governing grades and grading; and we urge (page 270) that early consideration should be given to the possibility of instituting a central veterinary service with responsibility for the supervision of the enforcement of these regulations.

Efficiency of manufacture.—The Commission should consider methods of increasing efficiency in the manufacture and marketing of milk products (pages 277-8). This is an immediate concern of the State so long as direct or indirect assistance is given by the Government to reduce the loss on milk sold for manufacture. The standardisation and improvement in the quality of milk products, the disposal of by-products and the development of the market for cream are all subjects which deserve early attention.

Stimulation of consumption.—We consider the stimulation of milk consumption to be a primary duty of the Commission and of the industry. Our proposals would involve a reduction in the retail price of milk and this, combined with suitable educational propaganda, should have a cumulative effect on consumption (page 279). We recommend (page 281) that the principle of encouraging consumption by means of specially low prices, which is embodied in the scheme for milk in schools, should be extended to other groups. We believe that it is only in this way that an immediate and appreciable increase can be secured in the consumption of milk by those who need it most. We recommend (page 282) that the Commission should also examine the possibilities of operating, on a commercial basis, a system of price differentiation to consumers.

(ii) Conclusion.

From the contacts we have had with representatives of many sections of opinion, we are encouraged to hope that the force of the arguments which we have endeavoured to present will be appreciated by the great majority of producers as well as by the wider public. There is, however, a natural disposition on the part of many producers to regard the Agricultural Marketing Acts and the schemes approved thereunder as constituting charters specially granted to them by Parliament to safeguard and to improve their position; and

it may be, therefore, that some of them will look critically, in the first instance, at any proposals which seem likely to modify the existing rights and privileges of their Boards.

We have full sympathy with the determination of milk producers to maintain a satisfactory economic position for themselves; but criticism of our recommendations based on the ground that they will involve the transfer of certain powers would leave out of account some of the most important aspects of a complicated problem. The milk marketing schemes appear to give very wide powers to producers, acting through their Boards; but there can be no doubt that public opinion would resent any disposition to use such powers unreasonably. If organised milk marketing is to remain and to develop, it is bound to be on a basis which ensures that due consideration shall be given to the needs of all parties to the sale and purchase of milk and that decisions on such matters as prices and contract terms, by whomsoever they may be made, shall be equitable. The necessity for ensuring to the consuming public an ample supply of clean, safe milk at a reasonable price must be the overriding consideration. One essential condition of achieving this object is that producers shall be treated fairly, for otherwise the milk required would not be produced. But the interest of individual sections must not be permitted to overrule the general interest.

The present form of marketing organisation in the milk industry undoubtedly leaves other sections of that industry—and tends in our view to leave the general public also—with the impression that the interests of producers are allowed to transcend all others. The difficulties of the last few years have been due, in part, to the buyers' distrust of machinery which operates primarily through the decisions of producers' Boards and which provides for independent intervention only after the event; but we are of opinion that they reflect also a popular distaste for an arrangement which appears to be even more one-sided than it is. We should regard it as unfortunate if it should continue to appear that terms can be imposed by one section of an industry upon all other sections and upon the general public: for that could only serve to foster a spirit of antagonism and unrest. We feel sure that, from this point of view alone, producers have far more to gain than they can possibly lose by the establishment of the independent authority which we have recommended.

Moreover, the situation has already become still further complicated by the action of the Government in providing State funds for the assistance of the milk industry. If the Government are prepared to assist in stimulating milk consumption, and substantial sums of public money are made available for use in a way which will benefit milk producers, directly or indirectly, the need for a measure of independence in administration will become even more apparent.

Finally, a policy aiming at the expansion of milk consumption demands a central authority capable, without unnecessary interference, of co-ordinating the various sections of the industry, of keeping the general position under regular review and of suggesting, as may be required, where and how the machinery might be supplemented and improved. The new central authority must be capable of having regard to the proper interests, and enjoying the confidence, of all parties; but its main concern must be the reconciliation of all interests in the pursuit of the public good.

We recognise that some of the changes we have proposed are of a far-reaching character, and that time will be required to bring them into full effect. But for the reasons given above we look upon the permanent Milk Commission, with the powers and duties we have described, as the keystone of the future structure. An independent body of this character seems to us to be a fundamental necessity if the industry is to operate and develop on smooth and well-ordered lines.

It is a tradition of this country to hasten slowly; to see that foundation stones are well and truly laid; and to build with care and deliberation. We have not proposed changes of importance unless we have felt them to be essential. We anticipate that from time to time the necessity for further changes will be proved: but in what directions these changes will lie it is impossible to forecast. In the meantime the changes which we recommend, while providing for present necessities, include also the machinery for a continuous examination and review of the industry. If the result is, as we believe it will be, to encourage a spirit of co-operation and goodwill among all sections, we are confident that the way will be open to secure from the milk marketing schemes the fullest possible advantages not only to producers, but also to the nation as a whole.

Acknowledgments.—We have already expressed, at the beginning of this Report, our sense of obligation to the many organisations and individuals with whom we have consulted in the course of our inquiries.

We wish in conclusion to thank our staff for all the assistance they have given. A very heavy burden of work and responsibility necessarily fell upon our Secretary, Mr. H. J. Johns. We have been greatly impressed by the outstanding ability with which Mr. Johns discharged his task, and we are keenly appreciative of his resourcefulness and of his unfailing consideration for all our needs in the course of our work.

We have received valuable help from the Assistant Secretaries, Mr. F. H. Keenlyside and Mr. J. C. Russell. The Technical Officers attached to the Commission, Mr. H. McCrae, Mr. A. L. Irving, and Mr. H. J. Meredith, have rendered great assistance both in the detailed examination of the large masses of information which came before us, and in the elaboration of the recommendations

arising out of our survey of the field. The range of knowledge and the fertility of mind displayed by Mr. McCrae and Mr. Irving were of signal service to us.

We desire to record our thanks to the Ministry of Agriculture and the Department of Agriculture for Scotland for having placed the services of these Officers at our disposal, and our personal gratitude to them all for their share in a long and difficult undertaking.

We have the honour to be,

Sirs,

Your obedient Servants,

A. E. Cutforth,
Chairman.

A. W. Ashby.

Iain Colquhoun of Luss.

John Orr.*

D. S. Tomkinson.

H. J. Johns, *Secretary.*

F. H. Keenlyside, John C. Russell } *Assistant Secretaries.*

6th November, 1936.

* With the Addendum which follows.

ADDENDUM BY SIR JOHN ORR.

I wish to add a note on the public health aspect of the milk supply—a subject which is of wider importance than those remitted to us in our capacity as an Agricultural Marketing Reorganisation Commission.

Since the Commission was set up, the Advisory Committee on Nutrition, appointed by the Minister of Health and the Secretary of State for Scotland, have recommended that for public health reasons the average consumption of milk by the population should be increased from the present low level of less than half a pint per head per day to about one pint per head per day. If milk consumption amongst the poorest classes of the population were raised to this level, the more important deficiencies of their diet would be made good, and all the available evidence indicates that there would be a rapid and marked improvement in public health, especially in the health of the rising generation.

But many of the medical profession are so impressed with the danger of disease being conveyed by milk that they consider making the milk supply safe as important as increasing consumption. It is estimated that of all deaths from tuberculosis in children, nearly a third are of the bovine type, the infection of which is conveyed mainly by milk. This and other milk-borne diseases could be greatly reduced if urban distribution were organised round central depots where the part of the milk supply which is unsafe could be treated in accordance with the requirements of the Ministry of Health.

The reorganisation of the industry needed to make the milk supply safe and to increase consumption to the level required for health is concerned more with distribution than production, and if rapid progress is to be made it will need to be assisted by funds from the national Exchequer. The work of reorganisation and the expenditure of Government funds on these public health objectives could be carried out better by a Corporation responsible to the House of Commons, the one body which represents all interests, than by marketing Boards responsible only to producers. Such a Corporation provided with the necessary funds could take over most of the duties of the present Boards, with their assets, liabilities and employees, and from the existing organisations gradually evolve a national scheme which would make milk safe and available at a price within the reach of all classes, and at the same time give producers an assured market at a remunerative price. But before a Corporation of the kind referred to could be set up, milk would need to be taken out of the provisions of the Agricultural Marketing Acts, which give producers statutory powers to control the marketing of their product. A recommendation to do this would obviously be outside the scope of a Commission set up in terms of these Acts.

The recommendations made in the Report, though they leave executive powers in the hands of the producers' Boards, make

provision for the establishment of a national Milk Commission which will have the power to fix prices and, it is hoped, will be provided with funds to encourage and promote public health reforms through the existing machinery. If sufficient funds be provided from the national Exchequer, these recommendations may go far to achieve the great national objectives referred to and, to that extent, I am in agreement with them and have signed the Report.

The recommendations will form an important step in the right direction. But the public health aspect of the milk problem may assume even greater importance in the immediate future, and it may be found that the recommendations, far-reaching though they are, are not attaining the desired national objectives quickly enough. For this reason I suggest that the Milk Commission proposed to be set up, which will have unique opportunities of studying the problems of milk supply and milk consumption from all angles, should be specifically enjoined to submit a special report to the Government not later than two years after it is appointed, showing how far these public health objectives have been secured and to what extent, if any, further changes of machinery are necessary in the public interest; and further, that the Commission should be free to make such recommendations as they may think fit without regard to any existing legislation affecting the production and sale of milk.

JOHN ORR.

APPENDIX I

The Milk Acts, 1934 and 1936.

The Milk Act, 1934, came into force on 15th August, 1934. It had as its main objects the improvement of the returns to producers from the sale of milk for manufacture; improvement in the quality of the milk supply; and the promotion of increased liquid milk consumption. Certain of its temporary provisions were extended, and a number of minor and consequential amendments were made, in a further Act which became law on 19th March, 1936.

(i) *Repayable Advances on Manufacturing Milk.*

The principal Act provided for the payment of advances to milk marketing Boards related to "standard" prices of 5d. in summer (April to September inclusive) and 6d. in winter for milk manufactured in Great Britain during the two years beginning 1st April, 1934. This period was extended by the Act of 1936 for an additional eighteen months, ending 30th September, 1937. Sections 1, 2 and 3 of the principal Act provided respectively for advances on milk sold by the Boards for manufacture in factories into cream, butter, cheese, milk powder or condensed milk, on milk manufactured by the Boards themselves into any of those milk products, and on milk made into cheese on farms. Milk made into butter on farms was not included. Provision was also made under Section 6 of the 1934 Act for payments from the Exchequer to the Government of Northern Ireland with a view to securing "standard" prices of 5d. and 6d. for milk manufactured into cream and butter at registered creameries in Northern Ireland. These payments also extend over a period of 3½ years.

The amount of the payment per gallon in Great Britain is limited to the difference between the "standard price," i.e., 6d. in winter and 5d. in summer, and either the "cheese-milk price" or the price realised, whichever is the greater. The "cheese-milk price" for any month (which is certified monthly by the Minister of Agriculture and Fisheries and the Secretary of State for Scotland) is the excess over 1¾d. of the average of the wholesale prices per lb. of New Zealand finest white and Canadian finest white cheese as sold in Great Britain during the immediately preceding month. The price realised for milk depends on the product manufactured, the scale of prices being determined by the Boards. No advance can be made in respect of any month in which the cheese-milk price equals or exceeds the standard price.

These Exchequer advances are repayable by the Boards under certain defined conditions. Repayment by a Board is only to be made if, in any of the forty-two months beginning April, 1936, the cheese-milk price should exceed the standard price by more than a penny. On every gallon of milk used for manufacture* in any such month, payment must be made of the difference between the cheese-milk price and the standard price increased by 1d. A Board does not, however, become liable to repay any sum in excess of the aggregate sum which it has received. Furthermore, under the 1936 Act the products on whose manufacture the advances have been made are divided into two groups; butter and cheese on the one hand, and cream, milk powder and condensed milk on the other. The liability of any Board is limited in respect of either group to the total of advances that have been made in respect of that group.

(ii) *Improvement in the Quality of the Milk Supply.*

Section 9 of the principal Act provided for improving the quality of the milk supply. During a period of four years total sums not exceeding £750,000 may be spent for this purpose. Under this Section schemes for the elimination of tuberculosis among cattle, generally known as the

* A special method of calculating the contingent repayment of advances on milk used in making cheese on farms is prescribed in the Act.

" Attested Herds " schemes, have been instituted in England and Scotland. These schemes provide for a bonus of 1d. a gallon on all milk from an " attested " herd sold under the marketing schemes. A herd is only registered as " attested " when three consecutive tuberculin tests, taken at suitable intervals, have revealed no reactors; the tests are repeated at intervals. The above-mentioned bonus is, of course, in addition to any other bonuses or premiums that may be secured. Provision has also been made under Section 9 for research into the reliability of tuberculin tests.

(iii) The Stimulation of Consumption.

Section 11 of the principal Act provided for contributions not exceeding £1 million towards the expenses of Boards incurred in efforts to increase the demand for milk during the period of two years from the date on which the first arrangements under this Section were approved. This period began on 25th September, 1934, when the English Milk-in-Schools scheme was approved. The Act of 1936 extended the period to 30th September, 1937, and increased the total permissible expenditure to £1½ million. Of the £1 million available in the first two years, £860,000 was allocated to England and Wales and £140,000 to Scotland.

Milk-in-Schools schemes.—The greater part of the contributions under Section 11 is spent on the Milk-in-Schools schemes, under which school children are able to obtain milk at the special rate of ½d. per one-third-pint bottle, equivalent to 1s. a gallon. Out of this sum the distributor receives 6d. For the purpose of calculating the Exchequer contributions, the Board is assumed to suffer a " loss " equal to the difference between the 6d. obtained from the sale of the milk and the standard wholesale selling price for liquid milk. In fact, of course, only part of the milk sold in schools takes the place of milk which would otherwise have been sold at the full liquid milk price. The remainder would have been sold for manufacturing purposes. The Exchequer contributions to the Board in England in each year are at the rate of half the Board's assumed loss on the first 18 million gallons and at a quarter on the remainder, provided the funds suffice. Under the Scottish schemes the Exchequer contributions are half the assumed loss.

Nutritional survey.—£5,000 has been allocated for a nutritional survey which is being undertaken jointly by the English and the main Scottish marketing Boards to ascertain the effect on the health of the children of consuming milk in varying quantities and to obtain evidence as to the relative nutritive values of raw and pasteurised milk. The plan of this survey was drawn up on the initiative of the Advisory Committee on Milk Publicity by an expert sub-committee representing the Departments of Health, Education and Agriculture in England and Scotland, the Medical and Agricultural Research Councils, the Rowett Institute and the National Union of Teachers. The Exchequer contribution towards the cost of the survey is being applied, first, in meeting half the general expenses of the inquiry, and secondly, in reimbursing the Boards so far as possible at the rate of 6d. per gallon for milk consumed, but not paid for, by the children.

General publicity.—The Government contribution towards the 1935 publicity campaign (mainly press and poster advertising) in England and Wales amounted to £29,125, being half the cost. The scheme approved for 1936 is again estimated to cost approximately £60,000, consisting of £43,000 for the main press campaign, £12,000 for posters and £5,000 for other forms of publicity, towards which Exchequer grant will be available up to £30,000. In Scotland the cost of Government contributions to publicity in 1935 was about £9,300.

(iv) Expenditure under the Acts.

It was estimated that the advances from the Exchequer in respect of manufacturing milk under Sections 1, 2 and 3 would amount to some £1½ to £1¾ million in the first year and that advances for the next year would be of a similar order. Actual payments in respect of 1934-35 (the first year) amounted to £1,279,500, of which £162,000 was advanced to

the milk marketing Boards in Scotland. To this must be added the payments to the Government of Northern Ireland, which amounted in the same year to £164,000, making a total assistance in respect of milk manufactured in the United Kingdom in the year 1934-35 of nearly £1½ million. In the second year (up to 31st March, 1936) the total advances on manufacturing milk under Sections 1, 2, 3 and 6 amounted to £1,315,000, of which £123,000 was advanced to milk marketing Boards in Scotland and £133,000 to the Government of Northern Ireland.

The cost of contributions under Section 11 for the Milk-in-Schools schemes in Great Britain have so far amounted to some £450,000 a year, of which about £50,000 is paid to the Scottish Boards and the rest to the English Board. Since the introduction of the scheme in the Aberdeen area in January, 1936, the payments in respect of Scotland will presumably have been slightly higher. Contributions towards general publicity and the nutritional survey have amounted to about £45,000 a year.

Under Section 9, £750,000, spread over a period of four years, was made available for improving the quality of milk supplies. Only a very small proportion of this sum has so far been spent.

APPENDIX II

Milk Marketing in Northern Ireland.

Although the Agricultural Marketing Act, 1931, does not apply to Northern Ireland, a similar measure was enacted by the Parliament of Northern Ireland in July, 1933, under which it would have been possible to introduce a milk marketing scheme broadly corresponding to the Great Britain schemes. It was, however, decided that special legislation was required to meet the special circumstances of the country.

The Milk and Milk Products Act (Northern Ireland), 1934, placed the organisation of milk marketing on an entirely different basis from that obtaining under any of the schemes in Great Britain. The fact that by far the greater part of the milk produced in Northern Ireland was utilised for manufacture rendered it impracticable to adopt a policy of pooling returns as was done in Great Britain, and the problem was approached from an entirely different angle, namely, the separation of the liquid and the manufacturing markets on the basis of the quality of the milk.

Accordingly, the central feature of the Northern Ireland scheme is the provision for all milk to be graded under four statutory grades—A, B, C and D. Milk of Grades A, B and C must be produced from cows which have passed a veterinary examination conducted by whole-time officers of the Ministry of Agriculture, and the milk must comply with certain standards of cleanliness and bacterial content. Grade D includes all milk that fails to reach the standard of Grade C. Grade A is approximately equivalent to Certified milk in England and Grade B to Accredited, while Grade C is of a somewhat lower standard*. Grade D milk may not be

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* The actual standards in force in Northern Ireland for the three grades of milk for human consumption are as follows:—

Grade A.—Cows must have passed the double intradermal tuberculin test applied by the Ministry's permanent veterinary officers. Milk must not contain more than 100,000 bacteria per c.c., and no bacillus coli shall be found in one-hundredth part of a c.c.

Grade B.—Cows must have been subject to official veterinary inspection and show no clinical symptoms of tuberculosis, and must be clean and healthy. Milk must not contain more than 300,000 bacteria per c.c., must have been cooled immediately after production to not more than 60° Fahrenheit, and no bacillus coli shall be found in one-hundredth part of a c.c.

Grade C.—Cows must have been subject to official veterinary inspection and show no clinical symptoms of tuberculosis, and the milk must comply with a standard of cleanliness. (When submitted to the methylene blue reductase test the milk must not be reduced in less than four hours.)

sold for human consumption, but only for manufacture. Control over the grades is secured by a system of licensing of both producers and distributors. The same level of wholesale prices has been fixed in respect of the two main grades of milk—B and C—but, through the operation of a higher levy on Grade C milk, returns to producers are made to depend on the quality of their milk.

The power to fix conditions of sale and prices to distributors and producers is vested in a Joint Milk Council, which is composed of three members appointed by the Minister of Agriculture, three members appointed by the Minister of Home Affairs to represent consumers, seven members elected by producers and four elected by distributors. The Chairman is one of the nominees of the Minister of Agriculture, and the secretary and staff are appointed by the Ministry.

The Joint Milk Council does not fix prices for Grade D milk or for any milk of Grades A, B and C which is used for manufacturing purposes. Its determinations in regard to retail prices require the approval of the Minister of Agriculture. Any determination of milk prices must be unanimous on the part of the members present, other than those appointed by the Minister of Agriculture; in default of such unanimity the decision rests with the Minister's three nominees.

It will be seen that the Ministry of Agriculture has a very considerable measure of control over the working of the scheme. It was thought that a purely producers' Board would not be the most suitable organisation to administer a scheme on the lines desired, and that the educational character of the scheme with the ideal of service to the consumer could best be maintained under the administrative control of the Ministry of Agriculture. It was also regarded as most important that effective control should be exercised over the distribution of milk in order to ensure that its hygienic quality should be preserved after it had left the farm; and for this purpose a producers' organisation would plainly have been unsuitable. In framing a constitution under which distributors and consumers are represented, the authorities were also influenced by the recommendations of the Grigg Commission for the establishment of a Joint Milk Council and by the fear that producers and distributors might combine to raise the retail price of milk by mutual concessions.

All contracts between producers and distributors must be in the prescribed form and are registered with the Council. The Council is not itself a party to the contract. Payment for milk is not made through the Council, and there is no pool. The equalisation payment on milk sold for manufacture is paid out of the Milk Fund, the income of which is made up of:—

(*a*) licence fees of £1 per annum payable by distributors;

(*b*) licence fees of 2s. 6d. per annum payable by producers;

(*c*) gallonage levies payable by producers on all milk sold for liquid consumption;

(*d*) licence fees, at the rate of 4s. 8d. per cwt., payable by sellers of all butter and margarine except farm butter sold by the producer;

(*e*) Exchequer advances under Section 6 of the Milk Act, 1934.

The gallonage levies payable by producers are calculated at a rate not exceeding one penny per gallon in the case of Grades A and B and 3d. per gallon in the case of Grade C on all milk sold for liquid consumption. The present scale of levies is 1/10th of a penny on Grade A, $\frac{1}{4}$d. on Grade B and $1\frac{3}{4}$d. on Grade C.

The levy on milk sold under contract is deducted by the distributor from the price paid to the producer and is remitted by him to the Ministry of Agriculture. In the case of producer-retailers the levy is payable direct to the Ministry.

The first charge on the Fund is the equalisation payment to raise the average price paid by creameries for milk for manufacture into butter or cream to 5d. per gallon in summer and 6d. in winter. Out of the Fund

are also paid bonuses at the rate of 2d. per gallon on milk of Grade A or Grade B quality which is unable to find a place in the liquid market and is delivered to a creamery, and 1d. per gallon on Grade C milk so delivered. Grants may also be made to improve the health of cattle and to stimulate milk consumption. The Fund, unlike those from which pool prices are paid in Great Britain, is not self-balancing.

The Ministry employs twenty full-time veterinary officers to inspect and test dairy cattle, buildings and equipment. Most of the cost of this Government veterinary service is borne by the Milk Fund, though part is borne by the local authorities whose veterinary services are superseded.

During the year ended 31st March, 1936, the quantity of milk sold for liquid consumption in Northern Ireland on which fees were received to that date was approximately 11,844,000 gallons. Of this quantity approximately 1,305,000 gallons (11 per cent.) were Grade A, 6,686,000 gallons (56 per cent.) Grade B, and 3,853,000 gallons (33 per cent.) Grade C. The quantity of milk delivered to creameries during the same period, as shown in the claims for equalisation payments, was 23,944,000 gallons; included in this total were 104,000 gallons of Grade A or Grade B milk and 5,533,000 gallons of Grade C milk, which received bonus payments of 2d. per gallon and 1d. per gallon respectively. The separated milk from the creameries is returned to the farmer for use in stock feeding.

APPENDIX III

Systems of Transport Charges under the Milk Marketing Schemes.

Under all of the four milk marketing schemes operating in Great Britain the expenses of transporting milk from the farm to the buyer are borne by producers, but the methods of fixing the transport charges payable by producers differ. The following is a description of the main features of the arrangements made under each of the schemes.

(*i*) *The English scheme.*

The broad principle underlying the transport provisions of the English scheme is that each producer should be liable for the charges incurred on the transport of his milk between farm and destination. It was recognised, however, that some modification of this governing principle would be necessary in certain cases because of the inequity to producers that its general application would create. The necessary modification, which was accordingly provided for in the scheme, arises out of the need for making special arrangements concerning the transport charges on manufacturing milk. Manufacturing milk is, in general, consigned to factories or country depots, most of which are situated in producing districts; consequently the transport expenses actually incurred on manufacturing milk are lower on the average than those on liquid milk. At the same time, since the returns from the sale of all milk, both liquid and manufacturing, are pooled, the gross returns to producers within a region are equalised. Unless, therefore, some allowance were made for this transport difference, a producer who sends milk direct to a distant liquid milk market would actually get less for it than a neighbouring producer who supplies a nearby factory where the milk is used for manufacture.

This problem of the transport charges on manufacturing milk is provided for in the scheme under paragraph 64 Tenthly. The terms of this paragraph require the Board to debit to each individual producer who has sold "surplus" milk, such sum as, in the opinion of the Board, fairly represents the freight charges and transit risks which he would have paid had he sold the milk for liquid consumption. It is thus left to the discretion of the Board to make whatever adjustments are considered necessary.

In exercising this discretion the Board has to face a serious practical difficulty. Where milk is supplied to a purchaser by a number of different

producers, each producer's supply loses its identity when the supplies are bulked. If, therefore, some of the milk is sold by that purchaser as liquid milk and the remainder is manufactured, it is impossible to identify those producers who supplied the manufacturing milk on which the scheme requires an additional transport charge to be imposed.

The method of determining the amount of each producer's transport charge varies according to whether the milk is sold under the contract as " depot " milk or as " direct " milk, and the actual procedure may best be described with reference to these two classes of milk.

" Depot " milk is milk sold to a depot approved by the Board. It is used partly for liquid consumption and partly for manufacture. That part which is sold as liquid milk is generally brine-cooled and bulked and re-consigned from the depot to one or more of the big consuming centres. " Direct " milk comprises all other milk sold under the wholesale contract and includes not only sales to wholesale and retail distributors but also sales to manufacturers.

" *Depot* " *charges.*—On " depot " milk the charges for which the producer is liable are made up of three separate items, namely:—

(*a*) a collecting charge;
(*b*) the " standard freight charge ";
(*c*) the " transit risk charge."

The collecting charge covers the cost of transport to the depot and therefore varies for different producers. The producer does not make any payment in this respect, of course, if he delivers the milk to the depot. The " standard freight charge " is equal to the rail rate between the depot and a destination stated in the contract and approved by the Board. The destination is usually the most distant of the markets supplied by the depot. The " transit risk charge "* is a uniform charge which was reduced under the 1935-36 contract from ½d. to ¼d. per gallon.

As a rule the transport charges on " depot " milk, made up of these three items, are deducted by the purchaser from his account in settling with the Board; the Board in turn debits them against the producers concerned. This procedure would satisfactorily dispose of the matter if the whole of the milk were in fact consigned from the depot to the destination approved in the contract; but in practice some of it may be consigned as liquid milk to another destination, and some may be retained for manufacture in the depot.

If milk is consigned to another destination and the purchaser (i.e. the depot) thereby incurs a lower transport charge than the " standard freight charge " stated in the contract, the difference is passed on to the Board; otherwise the depot would be presented, at the expense of its suppliers, with an unearned income from the unexpended transport charges. Any saving in transport charges thus effected should plainly be refunded to the producers who supplied that depot. It is impossible, of course, to distinguish between the milk which went to the approved destination and the milk which was consigned elsewhere, and the proceeds of the saving are therefore distributed by the Board among all producers supplying the depot. It should be added that where the actual cost of transport incurred by the purchaser is more than the " standard freight charge " the purchaser pays the extra cost himself.

The other alternative—where some of the milk is manufactured in the depot—also results in a saving, since the " standard freight charge " and the " transit risk charge ", though payable by the producer, are not incurred by the purchaser on this milk. The saving is likewise passed on to the Board by the purchaser, but instead of being distributed among all producers supplying the depot, it is credited by the Board to the regional

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* See footnote on page 90.

pool and is thus distributed among all producers in the region (cf. the " special transport deductions " on " direct " manufactured milk described below).

" *Direct* " *charges.*—The producer who consigns his milk under " direct " contract bears the transport charges incurred between his farm and the purchaser's premises or nearest railway station. Where he does not himself deliver the milk, the transport charge is either payable by the producer direct to the contracting carriers or, in the event of the purchaser undertaking the transport, an agreed allowance is deducted by the purchaser from his monthly account with the Board and is debited by the Board against the producer.

As in the case of " depot " milk, the Board is under an obligation, in accordance with the provisions of the scheme, to make an adjustment in the transport charges in respect of manufacturing milk sold on " direct " contract. This it does by means of a " special transport deduction ", commonly known as " S.T.D.". The amount of the " special transport deduction " is assessed by the Board and debited to the account of every producer who sells " direct " milk which has been manufactured; and these deductions are then credited by the Board to the regional pools.

The rate of the " special transport deduction " varies for different groups of producers, but it is uniform for all producers supplying the same factory. The maximum rate in any region is assessed with reference to the average of the charges for transport and transit risk payable on " depot " milk in the same region. This full rate is charged against all producers selling milk on " direct " contract to a factory which manufactures the whole of its supplies. Where, however, a given factory re-consigns from the factory some of its supplies as liquid milk, it bears the expense of re-consignment itself. In such a case there is a corresponding reduction in the quantity of manufacturing milk handled by that factory for which producers have to pay the " special transport deduction ", and in practice the total amount payable is averaged over all the producers supplying the factory. Consequently the rate of the " special transport deduction " depends on the relative proportions of liquid and manufacturing milk used by a factory. For example, if the maximum regional rate were 2d. a gallon, and if during a given month a factory manufactured half its supplies and sold the rest as liquid, the " special transport deduction " on producers supplying that factory would be 1d. per gallon.

For milk manufactured in a consuming centre a nominal rate of " special transport deduction " is fixed, since to impose the full deduction would be inequitable. The reason is that the costs of delivering to a town factory are usually substantially higher than the collection charge incurred by producers supplying a factory or depot in a producing area. At the same time the Board considers itself bound by the terms of the scheme to make some additional charge; moreover it does not wish to encourage manufacture in towns.

The Board's proposed amendments.—The amendments to the transport provisions of the English scheme now before the Minister would not make any alteration in the arrangements relating to " direct " liquid milk; on such milk producers would continue to be responsible for their own individual transport expenses. The main effect of the amendments would be to introduce a change in the method of dealing with transport charges on " depot " milk, both liquid and manufacturing, and on manufacturing milk sold on " direct " contract.

On these classes of milk, the Board would be empowered to prescribe for each separate region a " standard freight deduction " which would be payable by the producers concerned. Provision is also made for the Board to open a separate freight account for each region. The " standard freight deduction " payable by producers would be credited to the appropriate regional freight account, and the funds thus available to the Board would

be used to meet the transport charges allowed to purchasers of "depot" milk. It is intended that each regional freight account should be self-contained and that the sum total of the "standard freight deductions" in any region should be sufficient to cover the expenses of transport (other than those of collection) on all "depot" milk in that region. The general principle underlying the proposed amendments is that, in each region, the total allowances made to buyers for the transport of "depot" liquid milk between the "depots" and the consuming centres would be pooled among suppliers of "depot" milk and suppliers of "direct" manufacturing milk. All such suppliers within a region would thus pay a flat transport charge and this would be the charge prescribed by the Board as the "standard freight deduction" for the region.

(ii) The main Scottish scheme.

The transport charges system under the main Scottish scheme differs from the corresponding systems under the other three schemes in that the charges payable by producers are all on an assessed basis and vary according to the distance between the producer's farm and the nearest of a number of prescribed centres, irrespective of the actual destination of the milk. The amount payable by the individual is fixed under a scale of what are known as "standard haulage rates." This scale of rates, which is graduated according to mileage, is drawn up by the Board. For the purpose of deciding which is the nearest haulage centre to any farm, the measurement is taken in a straight line, but the rates which producers pay depend on the distance, by the shortest practicable route by road, from their farms to the nearest "haulage centre".

Originally there were three haulage centres provided for by the scheme, namely, Glasgow, Edinburgh and Dundee. As from 1st January, 1935, however, the number has been increased to fifteen through the addition of twelve further centres* in the east of the scheme area. These additional centres were prescribed, as a temporary expedient, by the Secretary of State for Scotland.

The general arrangement means, in effect, that, for the purpose of assessing transport charges, producers are grouped round their appropriate centre; and the total area covered by each group contains within it a succession of smaller areas, also round the centre, on the principle of a series of zones based on actual mileage from the centre. Thus all producers who are equidistant from their appropriate centre pay the same rate of transport charge, though the rate varies, of course, for differently situated producers according to the mileage scale fixed by the Board.

The scale of "standard haulage rates" at present in operation is as follows:—

	Per gallon. *d.*
Not exceeding 5 miles	½
Over 5 but not exceeding 10 miles	¾
„ 10 „ „ 30 „	1
„ 30 „ „ 40 „	1¼
„ 40 miles	1½

Under this system, the Board assumes the responsibility for paying all expenses connected with transport up to the buyers' premises or nearest railway station. This applies regardless of where the buyer's premises are situated, and it follows that if a buyer assembles supplies at premises in the country and re-consigns any part of these supplies to another destination, he bears the expense of re-consignment himself.

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* The additional centres are:—Alloa, Brechin, Crieff, Cupar, Dunfermline, Duns, Galashiels, Haddington, Kinross, Kirkcaldy, Perth and Stirling.

In those cases where the producer pays the expense of transport in the first instance, an adjustment in the amount of the haulage charge deducted from the pool price by the Board may be necessary. This adjustment may be either by way of increase or decrease. If, for example, a producer, able to dispose of his milk close at hand, has actually paid for haulage something less than his standard haulage rate, he is required to pay the balance, to make up the standard haulage rate, to the Board; and the Board therefore deducts this balance from his pool price. If, on the other hand, through having to send his milk a long distance, he has paid haulage expenses at more than his standard haulage rate, he is repaid the difference by the Board, the amount being added to his pool price.

A further requirement of the scheme is that, where milk is consigned by road transport, it must be carried by haulage contractors approved by the Board. A producer has the right of determining the licensed haulage contractor by whom his milk is to be transported and whether such transport is to be by road or rail.

Registered producers may be approved as licensed haulage contractors, and in this event they are paid by the Board for the work of haulage performed. Thus a producer who is approved as a haulage contractor pays the " standard haulage rate " applicable to his case as a producer; and as contractor he is paid by the Board on the same terms as other haulage contractors. In May, 1935, the number of such producers was 1,350. At the same date there were 240 distributors and 180 other contractors undertaking haulage, making a total of 1,770 licensed haulage contractors.

(*iii*) *The Aberdeen scheme.*

Under the Aberdeen scheme each producer bears the charge related to the transport of his own supplies to the point of delivery, that is, either to his buyer's premises or to the Board's creamery. The actual amount of this expense payable by the individual, however, is determined according to a scale of " standard haulage rates " prescribed by the Board. Since the beginning of 1935, this scale has been as follows:—

	Per gallon.
	d.
Not exceeding 5 miles	½
Over 5 but not exceeding 15 miles	¾
,, 15 ,, ,, 20 ,, ...	1
,, 20 ,, ,, 30 ,, ...	1¼
,, 30 miles	1½

For practical purposes, this scale may be regarded as applying only to the milk consigned to the City of Aberdeen, since the remainder of the scheme area is supplied almost entirely by producer-retailers.

(*iv*) *The North of Scotland scheme.*

The North of Scotland scheme provides for a similar system to that operated under the main Scottish scheme, the haulage centres named in the scheme being Inverness, Dingwall and Wick. But difficulties arose in putting these provisions of the scheme into operation, and consequently each producer in the North of Scotland has instead been responsible for meeting the expense of haulage actually incurred on his own supplies.

APPENDIX IV

Illustration of Simple Transport Zoning System.

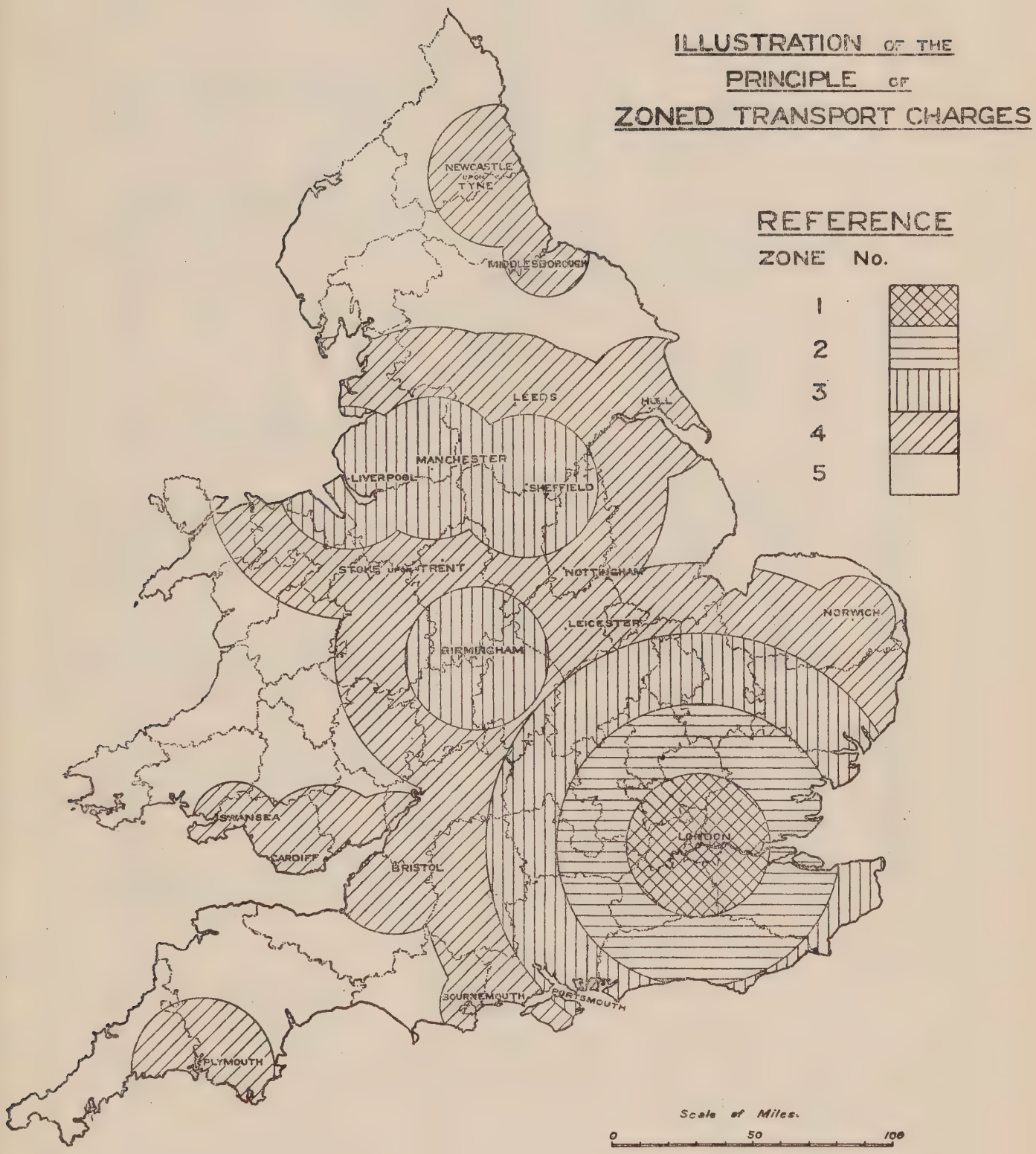
The accompanying map has been prepared for the purpose of illustrating a simple method of applying the principle of zoning which is recommended in Chapter 24 for adoption in the assessment of individual transport deductions. Since the intention is merely to provide an illustration and to keep that illustration as simple as possible, only England and Wales has been taken and the zones around the principal centres of consumption have been delineated by drawing circles at varying distances from those centres. In selecting the centres no allowance has been made for any factor other than population; and no attempt has been made to modify the boundaries of the resulting zones in order to overcome even the most obvious of the criticisms that might be levelled against this illustration.

On the assumption that, by eliminating unnecessarily long journeys, the average cost of transport in England and Wales might be reduced to about a 1d. per gallon, this zoning plan provides for rates varying between ½d. and 1½d. Since rates in excess of 1d. per gallon would be applicable to a larger proportion of the supply than rates of less than that amount, the income from these deductions would average rather more than 1d. per gallon. But if the rates suggested were either too large or too small to provide the income needed to meet the actual transport costs incurred by the Board, they would, of course, require modification.

The map divides England and Wales into five types of zone, carrying rates of transport deduction on the following basis:—

Zone No.	*Area Covered.*	*Transport Deduction. Per gallon.* d.
1	Within a 25 mile radius from the centre of London...	½
2	Between 25 and 50 miles from London	¾
3	Between 50 and 75 miles from London; or within 25 miles of any other town with a population exceeding 500,000	1
4	Between 75 and 100 miles of London; or between 25 and 50 miles of any other town with a population exceeding 500,000; or within 25 miles of any town, not included above, with a population exceeding 200,000; or within 15 miles of any town, not included above, with a population exceeding 100,000	1¼
5	All the remainder of the country	1½

It should be emphasised again that the suggestions embodied in the map are for purposes of illustration only.


ILLUSTRATION OF THE
PRINCIPLE OF
ZONED TRANSPORT CHARGES
REFERENCE
ZONE No.
1
2
3
4
5
NEWCASTLE UPON TYNE
MIDDLESBOROUGH
LEEDS
HULL
MANCHESTER
LIVERPOOL
SHEFFIELD
STOKE UPON TRENT
NOTTINGHAM
LEICESTER
NORWICH
BIRMINGHAM
SWANSEA
CARDIFF
BRISTOL
LONDON
BOURNEMOUTH
PORTSMOUTH
PLYMOUTH
Scale of Miles.
0
50
100

APPENDIX V—STATISTICAL TABLES

TABLE 29.

ENGLISH SCHEME.

NUMBERS OF REGISTERED PRODUCERS, WHOLESALE CONTRACTS, PRODUCER-RETAILERS AND FARM CHEESE MAKERS, BY REGIONS, PERIODICALLY TO MARCH, 1936.

Region.	March, 1934.			March, 1935.				March, 1936.			
	Registered producers.	Wholesale contracts.	Producer-retailers.	Registered producers.	Wholesale contracts.	Producer-retailers.	Farm cheese makers.	Registered producers.	Wholesale contracts.	Producer-retailers.	Farm cheese makers.
Northern	Regional figures not available.	5,828	4,578	15,596	7,263	6,917	105	15,567	8,103	7,119	124
North Western		20,356	14,531	39,166	20,567	16,855	310	37,316	21,399	16,575	376
Eastern		3,667	3,966	12,151	4,045	5,948	—	11,721	4,209	5,849	1
East Midland		6,745	3,949	12,438	6,755	5,167	14	11,645	6,936	5,090	15
West Midland		7,054	3,701	14,265	7,349	5,065	70	13,963	7,769	5,211	99
North Wales		1,619	2,264	7,024	1,808	2,958	44	6,808	1,833	3,129	57
South Wales		4,170	2,555	11,534	5,157	3,192	1	10,688	5,685	3,386	1
Southern		5,471	2,906	9,169	5,551	3,802	—	8,740	5,547	3,812	—
Mid Western		11,401	2,698	15,235	11,529	5,445	274	15,085	12,038	5,266	287
Far Western		5,204	3,439	13,666	7,937	5,831	2	15,489	8,830	5,821	3
South Eastern		6,666	3,826	10,821	6,443	4,954	—	10,585	6,366	4,528	—
Total	141,000	78,181	48,413	161,065	84,404	66,134	820	157,607	88,715	65,786	963

ENGLISH SCHEME.

QUANTITIES OF MILK DISPOSED OF FOR LIQUID CONSUMPTION AND FOR MANUFACTURE DURING EACH MONTH FROM OCTOBER, 1933, TO MARCH, 1936

(Thousands of gallons.)

Month.	Liquid consumption.			Manufacture.			Total of liquid and manufacture.	Per cent. liquid.	Per cent. manufacture.
	Under wholesale contracts.	By licensed producer-retailers.	Total.	Under wholesale contracts.	By farm cheese makers.	Total.			
1933.—Oct.*	37,446	9,348	46,794	7,106	—	7,106	53,900	86·8	13·2
Nov.	43,050	9,785	52,835	8,833	—	8,833	61,668	85·7	14·3
Dec.	44,514	9,779	54,293	9,001	—	9,001	63,294	85·8	14·2
1934.—Jan.	44,056	9,323	53,379	11,215	—	11,215	64,594	82·6	17·4
Feb.	41,050	8,261	49,311	11,380	—	11,380	60,691	81·2	18·8
Mar.	45,033	9,353	54,386	15,734	—	15,734	70,120	77·6	22·4
Apl.	43,671	8,867	52,538	18,037	2,493	20,530	73,068	71·9	28·1
May	45,798	8,836	54,634	29,699	3,454	33,153	87,787	62·2	37·8
Jun.	44,568	9,025	53,593	28,633	3,673	32,306	85,899	62·4	37·6
Jul.	46,148	9,157	55,305	19,157	3,447	22,604	77,909	71·0	29·0
Aug.	44,498	9,253	53,751	18,124	3,005	21,129	74,880	71·8	28·2
Sep.	43,981	8,984	52,965	15,705	2,774	18,479	71,444	74·1	25·9
Total 1933–34	523,813	109,971	633,784	192,624	18,846	211,470	845,254	75·0	25·0

ENGLISH SCHEME—TABLE 30—*cont.*

Month.	Liquid consumption.			Manufacture.			Total of liquid and manufacture.	Per cent. liquid.	Per cent. manufacture.
	Under wholesale contracts.	By licensed producer-retailers.	Total.	Under wholesale contracts.	By farm cheese makers.	Total.			
1934.—Oct.	46,770	10,179	56,949	16,700	1,200	17,900	74,849	76·1	23·9
Nov.	45,892	9,730	55,622	15,893	306	16,199	71,821	77·4	22·6
Dec.	45,818	9,894	55,712	17,764	252	18,016	73,728	75·6	24·4
1935.—Jan.	46,644	9,558	56,202	18,537	216	18,753	74,955	75·0	25·0
Feb.	42,711	9,008	51,719	18,479	213	18,692	70,411	73·5	26·5
Mar.	48,011	9,530	57,541	24,202	287	24,489	82,030	70·1	29·9
Apl.	45,154	9,366	54,520	29,985	1,541	31,526	86,046	63·4	36·6
May	47,820	9,480	57,300	40,566	2,187	42,753	100,053	57·3	42·7
Jun.	45,119	9,226	54,345	39,863	2,251	42,114	96,459	56·3	43·7
Jul.	47,024	9,272	56,296	34,030	2,149	36,179	92,475	60·9	39·1
Aug.	45,437	9,168	54,605	25,620	1,843	27,463	82,068	66·5	33·5
Sep.	45,616	8,838	54,454	20,051	1,560	21,611	76,065	71·6	28·4
Total 1934–35	552,016	113,249	665,265	301,690	14,005	315,695	980,960	67·8	32·2
1935.—Oct.	46,795	9,033	55,828	21,290	1,400	22,690	78,518	71·1	28·9
Nov.	45,436	8,794	54,230	19,759	517	20,276	74,506	72·8	27·2
Dec.	46,188	8,809	54,997	20,063	380	20,443	75,440	72·9	27·1
1936.—Jan.	46,401	8,660	55,061	21,106	355	21,461	76,522	72·0	28·0
Feb.	44,548	8,340	52,888	20,511	370	20,881	73,769	71·7	28·3
Mar.	47,539	8,686	56,225	26,512	629	27,141	83,366	67·4	32·6
Total (six winter months of 1935–36)	276,907	52,322	329,229	129,241	3,651	132,892	462,121	71·2	28·8

* Scheme came into operation on 6th October, 1933.

ENGLISH SCHEME.

DIRECT AND DEPOT CONTRACT SALES OF LIQUID AND MANUFACTURING MILK DURING THE YEARS 1933–34 AND 1934–35.

1933–34.

Method of sale.	Liquid.		Manufacturing.		Total.	
	Thousands of gallons.	Percentage.	Thousands of gallons.	Percentage.	Thousands of gallons.	Percentage.
Direct contract	360,972	68·9	64,237	33·3	425,209	59·4
Depot contract	162,841	31·1	128,387	66·7	291,228	40·6
Total	523,813	100·0	192,624	100·0	716,437	100·0

1934–35.

Direct contract	380,938	69·0	114,331	37·9	495,269	58·0
Depot contract	171,078	31·0	187,359	62·1	358,437	42·0
Total	552,016	100·0	301,690	100·0	853,706	100·0

TABLE 32.

MAIN SCOTTISH SCHEME.

QUANTITIES OF MILK DISPOSED OF FOR LIQUID CONSUMPTION AND FOR MANUFACTURE DURING EACH MONTH FROM DECEMBER, 1933,* TO MARCH, 1936.

(Thousands of gallons.)

Month.	Liquid consumption.			Manufacture.			Total of liquid and manufacture.	Per cent. liquid.	Per cent. manufacture.
	Under wholesale contracts.	By licensed producers.†	Total.	Under wholesale contracts.	By farm cheese makers.	Total.			
1933—Dec. ...	3,577	2,144	5,721	771	—	771	6,492	88·1	11·9
1934—Jan. ...	3,572	1,931	5,503	1,103	—	1,103	6,606	83·3	16·7
Feb. ...	3,342	1,730	5,072	1,235	5	1,240	6,312	80·4	19·6
Mar. ...	4,092	1,906	5,998	2,224	439	2,663	8,661	69·3	30·7
Apl. ...	3,951	1,626	5,577	2,824	1,022	3,846	9,423	59·2	40·8
May ...	4,446	1,591	6,037	3,802	1,713	5,515	11,552	52·3	47·7
Jun. ...	4,459	1,576	6,035	4,105	2,037	6,142	12,177	49·6	50·4
Jul. ...	4,520	1,573	6,093	3,418	1,856	5,274	11,367	53·6	46·4
Aug. ...	4,335	1,500	5,835	3,045	1,483	4,528	10,363	56·3	43·7
Sep. ...	4,179	1,406	5,585	2,417	1,145	3,562	9,147	61·1	38·9
Total 1933–34 (10 months) ...	40,473	16,983	57,456	24,944	9,700	34,644	92,100	62·4	37·6

1934—Oct. ...	4,330	1,370	5,700	2,083	550	2,633	8,333	68·4	31·6
Nov. ...	4,230	1,308	5,538	1,759	64	1,823	7,361	75·2	24·8
Dec. ...	4,356	1,331	5,687	1,758	3	1,761	7,448	76·4	23·6
1935—Jan. ...	4,403	1,392	5,795	1,811	—	1,811	7,606	76·2	23·8
Feb. ...	4,111	1,321	5,432	1,870	1	1,871	7,303	74·4	25·6
Mar. ...	4,732	1,418	6,150	2,795	391	3,186	9,336	65·9	34·1
Apl. ...	4,469	1,426	5,895	3,417	964	4,381	10,276	57·4	42·6
May ...	4,950	1,519	6,469	4,557	1,621	6,178	12,647	51·2	48·8
Jun. ...	4,716	1,523	6,239	4,761	1,768	6,529	12,768	48·9	51·1
Jul. ...	4,452	1,546	5,998	4,701	1,745	6,446	12,444	48·2	51·8
Aug. ...	4,622	1,516	6,138	3,448	1,360	4,808	10,946	56·1	43·9
Sep. ...	4,585	1,425	6,010	2,361	826	3,187	9,197	65·3	34·7
Total 1934–35	53,956	17,095	71,051	35,321	9,293	44,614	115,665	61·4	38·6
1935—Oct. ...	4,706	1,415	6,121	2,100	189	2,289	8,410	72·8	27·2
Nov. ...	4,434	1,373	5,807	1,869	3	1,872	7,679	75·6	24·4
Dec. ...	4,476	1,379	5,855	1,958	—	1,958	7,813	74·9	25·1
1936—Jan. ...	4,446	1,378	5,824	2,209	—	2,209	8,033	72·5	27·5
Feb. ...	4,318	1,313	5,631	2,442	—	2,442	8,073	69·8	30·2
Mar. ...	4,687	1,409	6,096	3,679	313	3,992	10,088	60·4	39·6
Total (six winter months of 1935–36) ...	27,067	8,267	35,334	14,257	505	14,762	50,096	70·5	29·5

* Scheme came into operation on 1st December, 1933.

† Includes producer-retailers, producer-wholesalers and producers of Certified milk.

ABERDEEN AND DISTRICT SCHEME.

TABLE 33.

QUANTITIES OF MILK DISPOSED OF FOR LIQUID CONSUMPTION AND FOR MANUFACTURE DURING EACH MONTH FROM AUGUST, 1934,* TO MARCH, 1936.

(Thousands of gallons.)

Month.	Liquid consumption.			Manufacture.‡	Total of liquid and manufacture.	Per cent. liquid.	Per cent. manufacture.
	Under wholesale contracts.	By licensed producers.†	Total.				
1934.—Aug.	482	164	646	26	672	96·1	3·9
Sep.	462	163	625	18	643	97·3	2·7
Total (2 months)	944	327	1,271	44	1,315	96·7	3·3
1934.—Oct.	488	157	645	19	664	97·2	2·8
Nov.	473	160	633	21	654	96·8	3·2
Dec.	433	162	595	89	684	87·0	13·0
1935.—Jan.	466	161	627	63	690	90·8	9·2
Feb.	443	126	569	37	606	93·9	6·1
Mar.	464	157	621	80	701	88·5	11·5
Apl.	436	157	593	97	690	85·9	14·1
May	453	164	617	133	750	82·3	17·7
Jun.	475	168	643	94	737	87·2	12·8
Jul.	479	174	653	82	735	88·8	11·2
Aug.	481	176	657	55	712	92·2	7·8
Sep.	433	163	596	61	657	90·8	9·2
Total 1934–35	5,524	1,925	7,449	831	8,280	90·0	10·0

1935.—Oct.	482	164	646	51	697	92·7	7·3
Nov.	481	160	641	41	682	94·0	6·0
Dec.	490	164	654	59	713	91·8	8·2
1936.—Jan.	496	163	659	65	724	91·1	8·9
Feb.	480	156	636	50	686	92·6	7·4
Mar.	502	171	673	87	760	88·6	11·4
Total (six winter months of 1935–36)	2,931	978	3,909	353	4,262	91·7	8·3

* Scheme came into operation on 1st August, 1934.

† Includes producer-retailers and producers of Certified milk.

‡ There is no special provision for farm cheese milk in the Aberdeen scheme area.

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QUANTITIES OF MILK DISPOSED OF FOR LIQUID CONSUMPTION AND FOR MANUFACTURE DURING EACH MONTH FROM OCTOBER, 1934,* TO MARCH, 1936.

(Thousands of gallons.)

Month.	Liquid consumption.			Manufacture.‡	Total of liquid and manufacture.	Per cent. liquid.	Per cent. manufacture.
	Under wholesale contracts.	By licensed producers.†	Total.				
1934.—Oct.	54	82	136	14	150	90·4	9·6
Nov.	50	77	127	11	138	91·9	8·1
Dec.	50	83	133	12	145	91·6	8·4
1935.—Jan.	50	81	131	12	143	91·5	8·5
Feb.	45	81	126	12	138	91·6	8·4
Mar.	56	81	137	10	147	93·1	6·9
Apl.	67	83	150	12	162	92·8	7·2
May	72	88	160	12	172	92·9	7·1
Jun.	72	89	161	12	173	93·4	6·6
Jul.	75	98	173	12	185	93·5	6·5
Aug.	72	98	170	9	179	94·9	5·1
Sep.	70	91	161	4	165	97·6	2·4
Total 1934–35	733	1,032	1,765	132	1,897	93·0	7·0
1935.—Oct.	68	85	153	2	155	98·6	1·4
Nov.	63	80	143	3	146	97·7	2·3
Dec.	64	81	145	4	149	97·6	2·4
1936.—Jan.	67	80	147	4	151	97·5	2·5
Feb.	63	77	140	4	144	97·4	2·6
Mar.	74	84	158	4	162	97·3	2·7
Total (six winter months of 1935–36)	399	487	886	21	907	97·7	2·3

* Scheme came into operation on 1st October, 1934.

† Includes producer-retailers and producers of Certified milk.

‡ There is no special provision for farm cheese milk in the North of Scotland scheme area.

ALL SCHEMES.

QUANTITIES OF MILK DISPOSED OF FOR LIQUID CONSUMPTION AND FOR MANUFACTURE DURING EACH MONTH FROM OCTOBER, 1933, TO MARCH, 1936.

(Thousands of gallons.)

Month.	Liquid consumption.			Manufacture.			Total of liquid and manufacture.	Per cent. liquid.	Per cent. manufacture.
	Under wholesale contracts.	By licensed producers.*	Total.	Under wholesale contracts.	By farm cheese makers.	Total.			
1933—Oct. ...	37,446	9,348	46,794	7,106	—	7,106	53,900	86·8	13·2
Nov. ...	43,050	9,785	52,835	8,833	—	8,833	61,668	85·7	14·3
Dec. ...	48,091	11,923	60,014	9,772	—	9,772	69,786	86·0	14·0
1934—Jan. ...	47,628	11,254	58,882	12,318	—	12,318	71,200	82·7	17·3
Feb. ...	44,392	9,991	54,383	12,615	5	12,620	67,003	81·2	18·8
Mar. ...	49,125	11,259	60,384	17,958	439	18,397	78,781	76·6	23·4
Apl. ...	47,622	10,493	58,115	20,861	3,515	24,376	82,491	70·4	29·6
May ...	50,244	10,427	60,671	33,501	5,167	38,668	99,339	61·1	38·9
Jun. ...	49,027	10,601	59,628	32,738	5,710	38,448	98,076	60·8	39·2
Jul. ...	50,668	10,730	61,398	22,575	5,303	27,878	89,276	68·8	31·2
Aug. ...	49,315	10,917	60,232	21,195	4,488	25,683	85,915	70·1	29·9
Sep. ...	48,622	10,553	59,175	18,140	3,919	22,059	81,234	72·8	27·2
Total 1933–34 ...	565,230	127,281	692,511	217,612	28,546	246,158	938,669	73·8	26·2

ALL SCHEMES.—TABLE 35.—*cont.*

Month.	Liquid consumption.			Manufacture.			Total of liquid and manufacture.	Per cent. liquid.	Per cent. manufacture.
	Under wholesale contracts.	By licensed producers*	Total.	Under wholesale contracts.	By farm cheese makers.	Total.			
1934—Oct. ...	51,642	11,788	63,430	18,816	1,750	20,566	83,996	75·5	24·5
Nov. ...	50,645	11,275	61,920	17,684	370	18,054	79,974	77·4	22·6
Dec. ...	50,657	11,470	62,127	19,623	255	19,878	82,005	75·8	24·2
1935—Jan. ...	51,563	11,192	62,755	20,423	216	20,639	83,394	75·3	24·7
Feb. ...	47,310	10,536	57,846	20,398	214	20,612	78,458	73·7	26·3
Mar. ...	53,263	11,186	64,449	27,087	678	27,765	92,214	69·9	30·1
Apl. ...	50,126	11,032	61,158	33,511	2,505	36,016	97,174	62·9	37·1
May ...	53,295	11,251	64,546	45,268	3,808	49,076	113,622	56·8	43·2
Jun. ...	50,382	11,006	61,388	44,730	4,019	48,749	110,137	55·7	44·3
Jul. ...	52,030	11,090	63,120	38,825	3,894	42,719	105,839	59·6	40·4
Aug. ...	50,612	10,958	61,570	29,132	3,203	32,335	93,905	65·6	34·4
Sep. ...	50,704	10,517	61,221	22,477	2,386	24,863	86,084	71·1	28·9
Total 1934–35 ...	612,229	133,301	745,530	337,974	23,298	361,272	1,106,802	67·4	32·6
1935—Oct. ...	52,051	10,697	62,748	23,443	1,589	25,032	87,780	71·5	28·5
Nov. ...	50,414	10,407	60,821	21,672	520	22,192	83,013	73·3	26·7
Dec. ...	51,218	10,433	61,651	22,084	380	22,464	84,115	73·3	26·7
1936—Jan. ...	51,410	10,281	61,691	23,384	355	23,739	85,430	72·2	27·8
Feb. ...	49,409	9,886	59,295	23,007	370	23,377	82,672	71·7	28·3
Mar. ...	52,802	10,350	63,152	30,282	942	31,224	94,376	66·9	33·1
Total (six winter months of 1935–36) ...	307,304	62,054	369,358	143,872	4,156	148,028	517,386	71·4	28·6

* Including producer-retailers and, in Scotland, producer-wholesalers and producers of Certified milk.

ENGLISH SCHEME.

TABLE 36.

REGIONAL QUANTITIES OF MILK DISPOSED OF FOR LIQUID CONSUMPTION AND FOR MANUFACTURE DURING THE CONTRACT YEARS 1933–34 AND 1934–35.

(Thousands of gallons.)

Region.	Liquid consumption.			Manufacture.			Total of liquid and manufacture.	Per cent. liquid.	Per cent. manufacture.
	Under wholesale contracts.	By licensed producer-retailers.	Total.	Under wholesale contracts.	By farm cheese makers.	Total.			
Northern ...	34,564	8,993	43,557	7,434	248	7,682	51,239	85·0	15·0
North Western	141,230	39,627	180,857	54,280	9,132	63,412	244,269	74·0	26·0
Eastern ...	30,231	7,971	38,202	2,705	8	2,713	40,915	93·4	6·6
East Midland ...	45,587	8,189	53,776	10,660	173	10,833	64,609	83·2	16·8
West Midland ...	35,903	5,667	41,570	28,006	2,815	30,821	72,391	57·4	42·6
North Wales ...	9,376	2,441	11,817	4,486	1,513	5,999	17,816	66·3	33·7
South Wales ...	16,587	3,905	20,492	8,018	13	8,031	28,523	71·8	28·2
Southern ...	51,155	7,254	58,409	6,914	—	6,914	65,323	89·4	10·6
Mid Western ...	69,852	5,740	75,592	55,463	4,913	60,376	135,968	55·6	44·4
Far Western ...	12,515	4,527	17,042	12,408	18	12,426	29,468	57·8	42·2
South Eastern ..	76,813	15,657	92,470	2,250	13	2,263	94,733	97·6	2·4
Total 1933–34 ...	523,813	109,971	633,784	192,624	18,846	211,470	845,254	75·0	25·0
Northern ...	38,020	8,945	46,965	16,956	323	17,279	64,244	73·1	26·9
North Western	151,032	39,584	190,616	80,854	5,806	86,660	277,276	68·7	31·3
Eastern ...	33,429	8,664	42,093	6,661	—	6,661	48,754	86·3	13·7
East Midland ...	48,904	8,451	57,355	16,636	161	16,797	74,152	77·3	22·7
West Midland ...	34,221	6,126	40,347	40,459	1,629	42,088	82,435	48·9	51·1
North Wales ...	8,762	2,532	11,294	9,684	838	10,522	21,816	51·8	48·2
South Wales ...	20,824	3,824	24,648	12,747	12	12,759	37,407	65·9	34·1
Southern ...	55,120	7,471	62,591	11,353	—	11,353	73,944	84·6	15·4
Mid Western ...	64,890	6,430	71,320	79,048	5,216	84,264	155,584	45·8	54·2
Far Western ...	14,749	5,032	19,781	23,223	20	23,243	43,024	46·0	54·0
South Eastern...	82,065	16,190	98,255	4,069	—	4,069	102,324	96·0	4·0
Total 1934–35...	552,016	113,249	665,265	301,690	14,005	315,695	980,960	67·8	32·2

ENGLISH SCHEME.

TABLE 37.

UTILISATION OF MANUFACTURING MILK DURING EACH MONTH FROM OCTOBER, 1933, TO SEPTEMBER, 1935.

(Thousands of gallons.)

Month.	Butter.	Cheese.†	Condensed milk.	Condensed milk for export.	Milk powder.	Fresh cream.	Tinned cream.	Other products.	Total.
1933—Oct. ...	1,217	2,319	1,031	235	530	1,442	102	230	7,106
Nov. ...	1,973	2,702	1,397	229	471	1,690	88	283	8,833
Dec. ...	1,660	2,418	1,482	156	374	2,517	93	301	9,001
1934—Jan. ...	2,614	3,486	1,656	165	476	2,202	270	346	11,215
Feb. ...	2,615	3,504	1,648	270	441	2,164	428	310	11,380
Mar. ...	3,555	4,752	2,732	450	666	2,790	510	279	15,734
Six months to Mar. 1934 ...	13,634	19,181	9,946	1,505	2,958	12,805	1,491	1,749	63,269
1934—Apr. ...	3,972	5,669	3,550	737	632	2,748	453	276	18,037
May ...	6,510	11,262	5,411	918	1,440	3,150	725	283	29,699
Jun. ...	5,844	10,710	5,098	899	1,166	3,846	799	271	28,633
Jul. ...	3,859	5,521	3,248	901	669	3,847	809	303	19,157
Aug. ...	3,734	4,891	3,916	519	790	3,315	721	238	18,124
Sep. ...	3,739	4,402	2,876	406	703	2,819	476	284	15,705
Six months to Sep. 1934 ...	27,658	42,455	24,099	4,380	5,400	19,725	3,983	1,655	129,355
Total 1933–34 ...	41,292	61,636	34,045	5,885	8,358	32,530	5,474	3,404	192,624
As percentage of total 1933–34	21·4	32·0	17·7	3·1	4·3	16·9	2·9	1·7	100·0

1934—Oct. ...	4,054	5,210	2,928	430	909	2,549	310	310	16,700
Nov. ...	3,781	5,160	2,821	421	761	2,327	355	267	15,893
Dec. ...	4,409	5,427	3,041	322	759	3,245	324	237	17,764
1935—Jan. ...	4,817	5,669	3,199	536	658	2,814	546	298	18,537
Feb. ...	5,832	5,561	2,822	360	448	2,653	566	237	18,479
Mar. ...	7,625	7,442	3,488	740	819	3,175	651	262	24,202
Six months to Mar. 1935 ...	30,518	34,469	18,299	2,809	4,354	16,763	2,752	1,611	111,575
1935—Apr. ...	9,002	9,471	4,716	924	1,332	3,403	786	351	29,985
May ...	11,515	13,493	6,564	1,274	2,130	3,939	1,082	569	40,566
Jun. ...	10,813	13,148	6,424	1,029	2,065	4,589	1,044	751	39,863
Jul. ...	9,082	10,403	5,204	1,090	1,420	5,059	837	935	34,030
Aug. ...	6,737	6,483	4,802	657	886	4,494	598	963	25,620
Sep. ...	6,050	5,164	3,200	680	781	3,101	591	484	20,051
Six months to Sep. 1935 ...	53,199	58,162	30,910	5,654	8,614	24,585	4,938	4,053	190,115
Total 1934–35 ...	83,717	92,631	49,209	8,463	12,968	41,348	7,690	5,664	301,690
As percentage of total 1934–35	27·8	30·7	16·3	2·8	4·3	13·7	2·5	1·9	100·0

† Excluding milk manufactured on farms.

TABLE 38.

MAIN SCOTTISH SCHEME.

UTILISATION OF MANUFACTURING MILK DURING EACH MONTH FROM DECEMBER, 1933, TO SEPTEMBER, 1935.

(Thousands of gallons.)

Month.	Butter.	Cheese.*	Condensed milk.	Milk powder.	Fresh cream.	Tinned cream.	Other products.	Total.
1933—Dec.	84	45	6	3	597	1	35	771
1934—Jan.	100	162	3	—	752	47	39	1,103
Feb.	115	67	88	—	836	92	37	1,235
Mar.	179	714	129	—	999	159	44	2,224
Four months to Mar. 1934	478	988	226	3	3,184	299	155	5,333
1934—Apr.	192	1,262	35	86	1,037	160	52	2,824
May	287	1,929	84	148	1,058	245	51	3,802
Jun.	309	2,220	140	22	1,151	216	47	4,105
Jul.	253	1,564	106	2	1,261	182	50	3,418
Aug.	216	1,422	128	—	1,109	123	47	3,045
Sep.	202	952	129	5	1,066	16	47	2,417
Six months to Sep. 1934	1,459	9,349	622	263	6,682	942	294	19,611
Total (ten months) 1933–34	1,937	10,337	848	266	9,866	1,241	449	24,944
As percentage of total 1933–34	7·8	41·4	3·4	1·1	39·5	5·0	1·8	100·0

1934—Oct.	211	737	152	2	887	49	45	2,083
Nov.	188	535	105	1	851	36	43	1,759
Dec.	218	306	64	—	1,096	29	45	1,758
1935—Jan.	255	417	82	—	927	88	42	1,811
Feb.	284	368	134	—	936	106	42	1,870
Mar.	378	863	205	3	1,067	244	35	2,795
Six months to Mar. 1935	1,534	3,226	742	6	5,764	552	252	12,076
1935—Apr.	425	1,442	240	—	1,002	267	41	3,417
May	615	2,316	265	2	1,044	267	48	4,557
Jun.	623	2,423	372	—	996	304	43	4,761
Jul.	646	2,075	533	1	1,160	240	46	4,701
Aug.	618	1,185	365	6	1,126	106	42	3,448
Sep.	521	396	289	1	989	128	37	2,361
Six months to Sep. 1935	3,448	9,837	2,064	10	6,317	1,312	257	23,245
Total 1934–35 ...	4,982	13,063	2,806	16	12,081	1,864	509	35,321
As percentage of total 1934–35	14·1	37·0	7·9	—	34·2	5·3	1·5	100·0

* Excluding milk manufactured on farms.

TABLE 39.

ALL SCHEMES.

UTILISATION OF MANUFACTURING MILK FOR EACH MONTH OF THE MILK YEAR 1934–35.

(Thousands of gallons.)

Month.	Butter.	Cheese.*	Condensed milk.	Condensed milk for export.	Milk powder.	Fresh cream.	Tinned cream.	Other products.	Total.
1934—Oct. ...	4,280	5,952	3,080	430	911	3,447	359	357	18,816
Nov. ...	3,978	5,695	2,926	421	762	3,199	391	312	17,684
Dec. ...	4,657	5,750	3,105	322	759	4,391	353	286	19,623
1935—Jan. ...	5,094	6,098	3,281	536	658	3,780	634	342	20,423
Feb. ...	6,122	5,934	2,956	360	448	3,625	672	281	20,398
Mar. ...	8,024	8,316	3,693	740	822	4,299	895	298	27,087
Apr. ...	9,463	10,934	4,956	924	1,332	4,453	1,053	396	33,511
May ...	12,196	15,846	6,829	1,274	2,132	5,020	1,349	622	45,268
Jun. ...	11,469	15,597	6,796	1,029	2,065	5,623	1,348	803	44,730
Jul. ...	9,761	12,483	5,737	1,090	1,421	6,261	1,077	995	38,825
Aug. ...	7,368	7,670	5,167	657	892	5,657	704	1,017	29,132
Sep. ...	6,584	5,561	3,489	680	782	4,134	719	528	22,477
Total 1934–35 ...	88,996	105,836	52,015	8,463	12,984	53,889	9,554	6,237	337,974
As percentage of total 1934–35	26·33	31·31	15·39	2·50	3·84	15·95	2·83	1·85	100·00

* Excluding milk manufactured on farms.

WHOLESALE LIQUID MILK PRICES DURING EACH MONTH FROM THE INCEPTION OF EACH SCHEME TO SEPTEMBER, 1936.

(Pence per gallon.)

Month.	English scheme.				Main Scottish scheme.			Aberdeen scheme.†		North of Scotland scheme.	
	1933–34.		1934–35.	1935–36.							
	S.E. Region.	Other Regions.	All Regions.	All Regions.	1933–34.	1934–35.	1935–36.	1934–35.	1935–36.	1934–35.	1935–36.
Oct. ...	16	15	16	17	—	14	14	14	15	14½	15
Nov. ...	16	16	16	17	—	15	15	14	15	14½	15
Dec. ...	17	16	17	17	14	15	15	14	15	14½	15
Jan. ...	17	16	17	17	14	15	15	15	15	15	15
Feb. ...	16	16	17	17	14	15	15	15	15	15	15
Mar. ...	14	14	16	17	14	14	14	15	15	15	15
Winter average ...	16·00	15·50	16·50	17·00	14·00	14·67	14·67	14·50	15·00	14·75	15·00
Apl. ...	13	12	16	16	14	13	14	15	15	14	15
May ...	12‡	12‡	12‡	12‡§	14	13	12	15	14	14	15
Jun. ...	12	12	12	12§	14	13	12	14	14	14	15
Jul. ...	13	12	13	13	14	13	14	14	14	14	15
Aug. ...	13	12	13	13	14	14	14	14	15	15	15
Sep. ...	13	12	16	15§	14	14	14	15	15	15	15
Summer average ...	12·67	12·00	13·67	13·50	14·00	13·33	13·33	14·50	14·50	14·33	15·00
Annual average ...	14·33	13·75	15·08	15·25	14·00	14·00	14·00	14·50	14·75	14·54	15·00

†Scheme came into operation on 1st August, 1934. The price for August and September, 1934, was 14d. per gallon. In Peterhead the price was 16d. per gallon in all months.

‡ In addition buyers contributed ⅛d. per gallon for publicity purposes.

§ Price as reduced following the Report of the Committee of Investigation.

ENGLAND AND WALES.

MONTHLY LIQUID MILK PRICES AS AGREED BY THE PERMANENT JOINT MILK COMMITTEE FROM 1928–29 TO INCEPTION OF SCHEME.

(Pence per gallon).

Month.	1928–29.	1929–30.			1930–31.			1931–32.			1932–33.		
		Class I. (10 % variation)	Class II. (20 % variation)	Class III. (50 % variation)	Class I. (10 % variation)	Class II(*a*). (25 % variation)	Class II(*b*).	Class I. (10 % variation)	Class II(*a*). (25 % variation)	Class II(*b*).	Class I. (10 % variation)	Class II(*a*). (25 % variation)	Class II(*b*).
Oct.	16	16	16	16	16	16	15	12	12	12	16	16	16
Nov.	17	17	16	16	16	16	17	12	12	13	16	16	16
Dec.	17	17	17	17	17	17	17	17*	16*	17*	17	17	17
Jan.	17	17	17	16	17	16	17	17*	17*	17*	17	17	17
Feb.	17	17	16	16	17	16	17	16*	15*	16*	16	16	16
Mar.	16	16	16	15	16	16	15	12	12	12	13	12	13
Apr.	16†	12	12	12	12	12	13	12	12	12	12	12	12
May	12	12	12	11½	12	11	11	12	12	12	12	11	12
Jun.	12	12	12	11½	12	11	11	12	12	12	12	11	12
Jul.	12	12	12	12	12	11	12	13	12	12	12	11	12
Aug.	12†	12	12	12	12	12	12	13	12	13	12	12	12
Sep.	16	16	16	16	12	12	13	13	12	13	13	12	13
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
Aggregate... ...	15 0	14 8	14 6	14 3	14 3	13 10	14 2	13 5	13 0	13 5	14 0	13 7	14 0

* These are revised prices; for Dec. and Jan. they are 4d. per gallon, and for Feb. 3d. per gallon, higher than the prices arranged in the original agreement.

† For milk delivered London the prices for these two months were transposed.

SCOTLAND.

MONTHLY LIQUID MILK PRICES UNDER THE SCOTTISH MILK AGENCY AND UNDER THE ABERDEEN AND DISTRICT MILK AGENCY FROM 1928–29 TO INCEPTION OF SCHEMES.

(Pence per gallon.)

Month.	Scottish Milk Agency.					Aberdeen and District Milk Agency.					
	1928-29.	1929–30.	1930–31.	1931–32.	1932–33.	1928–29.	1929–30.	1930–31.	1931–32.	1932–33.	1933–34.
Oct. ...	15	15	14½	10	14	—	15	13	13	13	13
Nov. ...	18	15	12	14	14	—	15	13	13	13	13
Dec. ...	18	15	10	14	14	—	14	13	13	13	14
Jan. ...	18	14½	11	14	14	15	14	13	13	13	14
Feb. ...	18	14½	14	14	10	15	14	13	13	13	14
Mar. ...	15	14½	14	10	10	15	14	13	13	13	14
Apr. ...	15	10½	10	10	10	14	14	13	13	13	14
May ...	11	10½	10	10	10	14	14	13	13	13	14
Jun. ...	11	10½	10	10	10	14	13	13	13	13	14
Jul. ...	11	10½	10	10	10	14	13	13	13	13	14
Aug. ...	13	10½	10	10	10	15	13	13	13	13	—
Sep. ...	14	14½	10	14	10	15	13	13	13	13	—
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
Aggregate ...	14 9	12 11½	11 3½	11 8	11 4	—	13 10	13 0	13 0	13 0	—

TABLE 43.

ALL SCHEMES.

MONTHLY AVERAGE REALISATION VALUES OF MANUFACTURING MILK (INCLUDING GOVERNMENT REPAYABLE ADVANCES) FROM THE INCEPTION OF EACH SCHEME TO MARCH, 1936.

(Pence per gallon.)

Month.	English scheme.	Main Scottish scheme.	Aberdeen scheme.	North of Scotland scheme.
1933—Oct. ...	5·65*	—	—	—
Nov. ...	5·46*	—	—	—
Dec. ...	5·85*	7·45*	—	—
1934—Jan. ...	5·28*	6·72*	—	—
Feb. ...	5·10*	6·91*	—	—
Mar. ...	4·77*	5·46*	—	—
Apl. ...	5·58	5·51	—	—
May ...	5·47	5·31	—	—
Jun. ...	5·46	5·04	—	—
Jul. ...	5·67	5·35	—	—
Aug. ...	5·63	5·61	6·50	—
Sep. ...	5·63	6·06	6·38	—
Annual average (weighted)	5·46	5·57	6·45	—
1934—Oct. ...	6·23	6·43	6·47	6·48
Nov. ...	6·30	6·27	7·64	6·75
Dec. ...	6·37	6·43	7·13	6·65
1935—Jan. ...	6·36	6·27	7·17	7·50
Feb. ...	6·27	6·10	8·03	6·94
Mar. ...	6·22	5·80	7·53	7·65
Apl. ...	5·23	4·74	6·11	7·82
May ...	4·83	4·29	5·07	7·19
Jun. ...	5·19	4·30	5·70	7·46
Jul. ...	5·38	4·67	6·68	8·33
Aug. ...	5·73	5·11	7·76	8·75
Sep. ...	5·54	5·74	6·79	8·49
Annual average (weighted)	5·64	5·14	6·58	7·40
1935—Oct. ...	5·99	6·52	6·84	10·00
Nov. ...	5·79	6·44	6·91	9·53
Dec. ...	5·93	6·60	6·95	10·00
1936—Jan. ...	5·86	6·49	6·55	10·00
Feb. ...	6·11	6·34	6·89	10·00
Mar. ...	5·77	6·07	6·43	10·00

* No Government advance before April, 1934.

TABLE 44.

ALL SCHEMES.

ANNUAL AVERAGE REALISATION VALUES (INCLUDING AND EXCLUDING GOVERNMENT REPAYABLE ADVANCES) OF MILK MANUFACTURED INTO VARIOUS PRODUCTS, 1933–34 AND 1934–35.

(Pence per gallon.)

The figures in italics show values including the Government advances.

Product.	English scheme.		Main Scottish scheme.		Aberdeen scheme.	North of Scotland scheme.
	Oct. 1933–Sep. 1934.	Oct. 1934–Sep. 1935.	Dec. 1933–Nov. 1934.	Dec. 1934–Nov. 1935.	Aug. 1934–Sep. 1935.	Oct. 1934–Sep. 1935.
Butter ...	3·61	4·07	5·22	4·01	3·58	3·63
	4·50	*5·36*	*5·86*	*5·09*	*4·78*	*5·11*
Cheese ...	3·60	3·50	3·19	2·73	2·91	3·11
	4·53	*4·80*	*4·56*	*3·82*	*4·06*	*4·71*
Soft and cream cheese ...	—	7·50	—	—	—	—
Condensed milk	6·0	6·0	5·19	5·16	—	—
			5·38	*5·29*		
Condensed milk for export ...	3·62	4·04	—	—	—	—
	4·62	*5·26*				
Milk powder ...	5·03	4·50	3·67	4·01	—	—
	5·35	*5·28*	*5·02*	*5·23*		
Fresh cream ...	7·96	7·50	6·59	6·83	8·84*	9·07
Tinned cream ...	5·20	5·0	4·90	4·37	—	—
		5·36	*4·97*	*4·60*		
Ice-cream ...	—	7·50	—	—	—	—
Chocolate ...	8·0	8·0	—	—	—	—
Sterilised milk for export ...	6·0	6·0	—	—	—	—
Products not separately specified	9·0	9·0	8·71	8·86	—	—
Average (weighted)	4·96	4·81	4·99	4·73	6·03	6·77
	5·46	*5·64*	*5·57*	*5·14*	*6·57*	*7·40*

* Includes Ice-cream.

ALL SCHEMES. TABLE 45.

PRESCRIBED MINIMUM RETAIL PRICES MONTHLY FROM THE INCEPTION OF EACH SCHEME TO SEPTEMBER, 1936.

(Pence per gallon.)

Month.	English scheme.					Main Scottish scheme.	Aberdeen scheme.	North of Scotland scheme.
	Local government areas having population :							
	*Less than 10,000.		Over 10,000.	10,000–50,000.	Over 50,000.			
	S.E. region.	Other regions.	S.E. region.	Other regions.	Other regions.			
1933—Oct.	(Not prescribed)					—	—	—
Nov.						—	—	—
Dec.						24	—	—
1934—Jan.						24	—	—
Feb.						24	—	—
Mar.						24	—	—
Winter average						24	—	—
1934—Apl.	21	20	23	21	22	24	—	—
May	20	20	22	21	22	24	—	—
Jun.	20	20	22	21	22	24	—	—
Jul.	21	20	23	21	22	24	—	—
Aug.	21	20	23	21	22	24	24	—
Sep.	21	20	23	21	22	24	24	—
Summer average	20·67	20	22·67	21	22	24	24	—

Month.	English scheme.				Main Scottish scheme.	Aberdeen scheme.	North of Scotland scheme.
	Local government areas having population :						
	*Less than 10,000.	10,000–25,000.	Over 25,000.				
	All regions.	All regions.	S.E. region.	Other regions.			
1934—Oct.	24	26	28	28	24	24	24
Nov.	24	26	28	28	24	24	24
Dec.	24	26	28	28	24	24	24
1935—Jan.	24	26	28	28	24	24	24
Feb.	24	26	28	28	24	24	24
Mar.	24	26	28	28	24	24	24
Winter average	24	26	28	28	24	24	24
1935—Apl.	24	24	28	24	24	24	24
May	20	24	24	24	24	24	24
Jun.	20	24	24	24	24	24	24
Jul.	24	24	24	24	24	24	24
Aug.	24	24	24	24	24	24	24
Sep.	24	24	28	24	24	24	24
Summer average	22·67	24	25·33	24	24	24	24
Annual average 1934–35 ...	23·33	25	26·67	26	24	24	24

ALL SCHEMES—TABLE 45—*cont.*

Month.	English Scheme.				Main Scottish scheme.	Aberdeen scheme.	North of Scotland scheme.
	Local government areas having population :						
	*Less than 10,000.	10,000–25,000.	Over 25,000.				
	All regions.	All regions.	S.E. region.	Other regions.			
1935—Oct.	24	26	28	28	24	24	24
Nov.	24	26	28	28	24	24	24
Dec.	24	26	28	28	24	24	24
1936—Jan.	24	26	28	28	24	24	24
Feb.	24	26	28	28	24	24	24
Mar.	24	26	28	28	24	24	24
Winter average	24	26	28	28	24	24	24
1936—Apl.	24	24	28	24	24	24	24
May	20	24	24	24	20	24	24
Jun.	20	24	24	24	20	24	24
Jul.	24	24	24	24	24	24	24
Aug.	24	24	24	24	24	24	24
Sep.	24	24	28	24	24	24	24
Summer average	22·67	24	25·33	24	22·67	24	24
Annual average 1935–36 ...	23·33	25	26·67	26	23·33	24	24

* Applicable to all areas administered by Rural District Councils.

NOMINAL DISTRIBUTIVE MARGINS MONTHLY FROM THE INCEPTION OF EACH SCHEME TO SEPTEMBER, 1936.

(Pence per gallon.)

Month.	English scheme.*				Main Scottish scheme.	Aberdeen scheme.†	North of Scotland scheme.
	Local government areas having population :						
	‡Less than 10,000.	Over 10,000.	10,000–50,000.	Over 50,000.			
	All regions.	S.E. region.	Other regions.	Other regions.			
1933—Oct.	(Retail prices not prescribed)				—	—	—
Nov.					—	—	—
Dec.					10	—	—
1934—Jan.					10	—	—
Feb.					10	—	—
Mar.					10	—	—
Winter average					10	—	—
1934—Apl.	8	10	9	10	10	—	—
May	8	10	9	10	10	—	—
Jun.	8	10	9	10	10	10	—
Jul.	8	10	9	10	10	10	—
Aug.	8	10	9	10	10		
Sep.	8	10	9	10	10	10	—
Summer average	8	10	9	10	10	10	—

ALL SCHEMES—TABLE 46—*cont.*

Month.	English scheme.*				Main Scottish scheme.	Aberdeen scheme.†	North of Scotland scheme.
	Local government areas having population :						
	‡Less than 10,000.	10,000–25,000.	Over 25,000.				
	All regions.	All regions.	S.E. region.	Other regions.			
1934—Oct.	8	10	12	12	10	10	9½
Nov.	8	10	12	12	9	10	9½
Dec.	7	9	11	11	9	10	9½
1935—Jan.	7	9	11	11	9	9	9
Feb.	7	9	11	11	9	9	9
Mar.	8	10	12	12	10	9	9
Winter average	7·50	9·50	11·50	11·50	9·33	9·50	9·25
1935—Apl.	8	8	12	8	11	9	10
May	8	12	12	12	11	9	10
Jun.	8	12	12	12	11	10	10
Jul.	11	11	11	11	11	10	10
Aug.	11	11	11	11	10	10	9
Sep.	8	8	12	8	10	9	9
Summer average	9·00	10·33	11·67	10·33	10·67	9·50	9·67
Annual average 1934–35 ...	8·25	9·92	11·58	10·92	10·00	9·50	9·46

1935—Oct.	7	9	11	11	10	9	9
Nov.	7	9	11	11	9	9	9
Dec.	7	9	11	11	9	9	9
1936—Jan.	7	9	11	11	9	9	9
Feb.	7	9	11	11	9	9	9
Mar.	7	9	11	11	10	9	9
Winter average	7·00	9·00	11·00	11·00	9·33	9·00	9·00
1936—Apl.	8	8	12	8	10	9	9
May	8	12	12	12	8	10	9
Jun.	8	12	12	12	8	10	9
Jul.	11	11	11	11	10	10	9
Aug.	11	11	11	11	10	9	9
Sep.	9	9	13	9	10	9	9
Summer average	9·17	10·50	11·83	10·50	9·33	9·50	9·00
Annual average 1935–36 ...	8·08	9·75	11·42	10·75	9·33	9·25	9·00

* In May purchasers on the Board's contracts paid ⅛d. per gallon to a fund for publicity purposes.
† In Peterhead the nominal distributive margin was 8d. in each month.
‡ Applicable to all areas administered by Rural District Councils.

TABLE 47.

ALL SCHEMES.

POOL PRICES MONTHLY FROM THE INCEPTION OF EACH SCHEME TO MARCH, 1936.

(Pence per gallon.)

Month.	English scheme.*	Scottish scheme.	Aberdeen scheme.			North of Scotland scheme.		
			Basic.	Surplus.	Average.	Basic.	Surplus.	Average.
1933—Oct.	13·51	—	—	—	—	—	—	—
Nov.	14·00	—	—	—	—	—	—	—
Dec.	14·34	12·00	—	—	—	—	—	—
1934—Jan.	14·01	12·00	—	—	—	—	—	—
Feb.	13·61	12·00	—	—	—	—	—	—
Mar.	11·99	11·00	—	—	—	—	—	—
Apl.	10·63	10·00	—	—	—	—	—	—
May	10·01	9·00	—	—	—	—	—	—
Jun.	10·24	9·00	—	—	—	—	—	—
Jul.	10·51	9·75	—	—	—	—	—	—
Aug.	10·76	10·50	12·00	6·00	11·90	—	—	—
Sep.	10·77	11·00	12·00	6·00	11·87	—	—	—
Weighted average 1933–34 ...	11·83	10·38	12·00	6·00	11·88	—	—	—

1934—Oct.	13·56	11·50	12·00	6·00	11·83	13·50	3·00	12·77
Nov.	13·81	12·75	12·00	5·00	11·75	13·50	3·00	13·22
Dec.	14·35	13·00	12·00	5·00	11·69	13·00	2·50	12·69
1935—Jan.	14·46	13·00	13·00	7·00	12·73	13·50	4·50	12·27
Feb.	13·99	12·50	13·50	7·00	13·24	13·50	4·50	12·36
Mar.	12·87	11·25	13·00	7·00	12·71	13·50	4·50	12·19
Apl.	12·06	9·75	13·00	5·00	12·65	12·50	4·50	11·14
May	9·35	8·75	12·00	4·00	11·55	12·50	5·50	12·03
Jun.	9·54	8·50	11·00	3·00	10·54	12·50	5·50	11·96
Jul.	9·84	8·50	11·00	3·00	10·64	12·50	5·50	12·05
Aug.	10·01	10·00	12·00	6·00	11·86	13·50	4·50	13·12
Sep.	12·74	11·25	12·50	4·50	12·35	13·50	4·50	13·28
Weighted average 1934–35 ...	11·99	10·61	12·22	5·05	11·90	13·10	4·29	12·70
1935—Oct.	13·43	12·00	13·00	5·00	12·77	13·50	4·50	13·30
Nov.	13·34	12·75	13·00	5·00	12·59	13·50	4·50	13·29
Dec.	13·56	12·75	13·50	6·00	13·05	14·00	5·00	13·80
1936—Jan.	13·42	12·25	13·50	6·00	13·00	14·00	5·00	13·77
Feb.	13·39	12·00	13·00	6·00	12·86	14·00	5·00	13·75
Mar.	12·86	11·00	13·00	6·00	12·80	14·00	5·00	13·62

* Weighted averages of regional pool prices.

TABLE 48.

ENGLISH SCHEME.

REGIONAL POOL PRICES MONTHLY FROM OCTOBER, 1933, TO MARCH, 1936.

(Pence per gallon.)

Region.	1933.			1934.									Weighted average 1933–34
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sep.	
Northern	13¾	14	14½	14	13½	12¼	10¾	10¼	10½	10½	10¾	10¾	11·90
North Western ...	13½	14	14	13¾	13½	12	10½	10	10¼	10¼	10½	10½	11·70
Eastern	14	14¼	14¾	14½	14¼	12½	10¾	10¼	10½	10¾	11	11	12·22
East Midland ...	13½	14¼	14¼	14	14	12¼	10½	10	10¼	10¼	10½	10¾	11·89
West Midland ...	12¾	13½	14	13¼	13	11¼	10¼	9¾	9¾	10¼	10½	10½	11·34
North Wales ...	13¼	13¾	14	13¾	13½	12	10½	9¾	10	10¼	10½	10½	11·33
South Wales ...	13½	13¾	14	13¾	13¼	12	10¾	10	10¼	10½	10¾	11	11·70
Southern ...	14	14¼	14¾	14½	14¼	12½	10¾	10¼	10½	10¾	11	11	12·26
Mid Western ...	12¾	13¾	14¼	13½	13	11½	10½	9¾	10	10½	10¾	10¾	11·55
Far Western ...	13¼	13½	13¾	13¼	13	11½	10¼	9¾	10	10¼	10½	10¾	11·29
South Eastern ...	14¾	14½	15¼	15¼	14½	12½	11½	10½	10¾	11½	11¾	11½	12·75
Weighted average	13·51	14·00	14·34	14·01	13·61	11·99	10·63	10·01	10·24	10·51	10·76	10·77	11·83

Region.	1934.			1935.									Weighted average 1934–35
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sep.	
Northern ...	13¾	14	14¼	14½	14	13	12¼	9½	9½	10	10	12¾	12·10
North Western ...	13½	14	14¼	14½	14	12¾	12	9¼	9½	9¾	10	12¾	11·95
Eastern	14¼	14½	14½	14¾	14¼	13¼	12¼	9¾	10	10¼	10¼	13	12·45
East Midland ...	14	14	14½	14½	14¼	13	12	9½	9½	10	10	13	12·18
West Midland ...	12¾	13	14	14	13½	12½	11¾	9	9¼	9½	9¾	12¼	11·48
North Wales ...	12¾	13¼	14	14¼	13½	12¾	11¾	9¼	9¼	9½	10	12½	11·53
South Wales ...	13¾	14	14½	14¾	14	13	12¼	9½	9½	10	10¼	12¾	12·06
Southern ...	14¼	14½	14¾	14½	14½	13¼	12¼	9¾	10	10¼	10¼	13	12·50
Mid Western ...	13	13	14¼	14	13½	12½	11¾	9	9¼	9½	9¾	12½	11·59
Far Western ...	12¼	13	14	14	13¾	12½	12	9	9¼	9½	9¾	12¼	11·39
South Eastern ...	14¾	14½	14¾	15¼	14½	13½	12¾	10	10¼	10½	10½	13¼	12·78
Weighted average	13·56	13·81	14·35	14·46	13·99	12·87	12·06	9·35	9·54	9·84	10·01	12·74	11·99

ENGLISH SCHEME—TABLE 48—*cont.*

Region.	1935.			1936.		
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Northern	13½	13¼	13¼	13¼	13¼	12¾
North Western	13½	13¼	13½	13¼	13¼	12¾
Eastern	13¾	13¾	14	13¾	13½	13¼
East Midland	13½	13½	13¾	13½	13½	13
West Midland	13	13	13¼	13¼	13¼	12½
North Wales	13¼	13	13¼	13¼	13¼	12¾
South Wales	13½	13½	13½	13½	13¼	12¾
Southern	13¾	13¾	14	13¾	13¾	13½
Mid Western	13	13	13¼	13¼	13¼	12½
Far Western	13	13	13	13	13	12½
South Eastern	14	14	14¼	14	14	13½
Weighted average	13·43	13·34	13·56	13·42	13·39	12·86

TABLE 49.

ENGLISH SCHEME.

REGIONAL CONTRIBUTIONS TO AND WITHDRAWALS FROM THE INTER-REGIONAL COMPENSATION FUND ACCOUNT.

Region.	Amount paid to fund.	Amount taken from fund	Net benefit from fund.	Net contribution to fund.
	YEAR TO SEPTEMBER, 1934.			
	£	£	£	£
Northern ...	174,667	98,217	—	76,450
North Western	723,309	718,647	—	4,662
Eastern ...	153,290	37,218	—	116,072
Eastern Midland	218,084	138,248	—	79,836
West Midland ...	168,604	368,344	199,740	—
North Wales ...	47,161	55,925	8,764	—
South Wales ...	81,923	109,878	27,955	—
Southern ...	238,036	90,880	—	147,156
Mid Western ...	310,584	747,174	436,590	—
Far Western ...	67,737	164,376	96,639	—
South Eastern	375,118	29,606	—	345,512
Total ...	2,558,513	2,558,513	769,688	769,688
	YEAR TO SEPTEMBER, 1935.			
Northern ...	287,686	231,196	—	56,490
North Western	1,162,045	1,094,062	—	67,983
Eastern ...	257,893	92,007	—	165,885
East Midland ...	352,925	223,021	—	129,903
West Midland ...	245,276	544,698	299,421	—
North Wales ...	68,807	130,360	61,553	—
South Wales ...	149,767	168,190	18,423	—
Southern ...	385,392	156,261	—	229,132
Mid Western ...	432,348	1,064,172	631,824	—
Far Western ...	120,806	308,929	188,123	—
South Eastern	605,675	55,724	—	549,951
Total ...	4,068,620	4,068,620	1,199,344	1,199,344

TABLE 50.

ALL SCHEMES.

MONTHLY MARGINS BETWEEN LIQUID AND POOL PRICES FROM THE INCEPTION OF EACH SCHEME TO MARCH, 1936.

(Pence per gallon.)

Month.	English scheme.*	Main Scottish scheme.	Aberdeen scheme.†	North of Scotland scheme.†
1933—Oct. ...	1·61	—	—	—
Nov. ...	2·00	—	—	—
Dec.	1·78	2·00	—	—
1934—Jan. ...	2·11	2·00	—	—
Feb. ...	2·39	2·00	—	—
Mar. ...	2·01	3·00	—	—
Apl. ...	1·48	4·00	—	—
May ...	1·98	5·00	—	—
Jun. ...	1·76	5·00	—	—
Jul. ...	1·60	4·25	—	—
Aug. ...	1·35	3·50	2·10	—
Sep. ...	1·33	3·00	2·13	—
Annual average 1933–34 ...	1·78	3·62	2·12	—
1934—Oct. ...	2·44	2·50	2·17	1·73
Nov. ...	2·19	2·25	2·25	1·28
Dec. ...	2·65	2·00	2·31	1·81
1935—Jan. ...	2·54	2·00	2·27	2·73
Feb. ...	3·01	2·50	1·76	2·64
Mar. ...	3·13	2·75	2·29	2·81
Apl. ...	3·94	3·25	2·35	2·86
May ...	2·65	4·25	3·45	1·97
Jun. ...	2·46	4·50	3·46	2·04
Jul. ...	3·16	4·50	3·36	1·95
Aug. ...	2·99	4·00	2·14	1·88
Sep. ...	3·26	2·75	2·65	1·72
Annual average 1934–35 ...	2·88	3·39	2·60	1·84
1935—Oct. ...	3·57	2·00	2·23	1·70
Nov. ...	3·66	2·25	2·41	1·71
Dec. ...	3·44	2·25	1·95	1·20
1936—Jan. ...	3·58	2·75	2·00	1·23
Feb. ...	3·61	3·00	2·14	1·25
Mar. ...	4·14	3·00	2·20	1·38

* Averages weighted by regions.

† The figures given are based on averages of the prices paid to producers for "basic" and "surplus" milk, weighted for quantities.

TABLE 51.

ENGLISH SCHEME.

PRODUCER-RETAILERS' CONTRIBUTIONS FOR EACH REGION IN 1933–34 AND 1934–35.

(Pence per gallon.)

Region.	1933–34.		1934–35.	
	Unweighted average of nominal monthly contributions.	Weighted average of actual monthly contributions.*	Unweighted average of nominal monthly contributions.	Weighted average of actual monthly contributions.*
Northern ...	1·48	0·80	2·46	2·01
North Western	1·65	0·95	2·54	2·06
Eastern ...	1·30	0·65	2·24	1·78
East Midland ...	1·54	0·87	2·42	1·95
West Midland ...	1·90	1·24	2·85	2·40
North Wales ...	1·71	1·01	2·76	2·27
South Wales ...	1·60	0·89	2·42	1·92
Southern ...	1·30	0·65	2·23	1·79
Mid Western ...	1·74	1·16	2·81	2·44
Far Western ...	1·84	1·12	2·85	2·37
South Eastern	1·37	0·72	2·03	1·58

* These figures are adjusted to allow for the level delivery premiums earned by many producer-retailers.

ALL SCHEMES. TABLE 52.

CONTRIBUTIONS OF PRODUCER-RETAILERS, PRODUCER-WHOLESALERS AND GRADED MILK PRODUCERS DURING EACH MONTH TO SEPTEMBER, 1935.

(Pence per gallon.)

Month.	English scheme.		Main Scottish scheme.		Aberdeen scheme.		North of Scotland scheme.	
	Producer-retailers.							
	Average nominal contributions.*	Average actual contributions.†	Producer-retailers and producer-wholesalers.	Certified milk producers.	Producer-retailers.	Certified milk producers.	Producer-retailers.	Certified and Grade "A" (T.T.) producers.
1933—Oct.	1·41	0·47	—	—	—	—	—	—
Nov.	1·78	0·83	—	—	—	—	—	—
Dec.	1·58	0·73	1·8	1·8	—	—	—	—
1934—Jan.	1·84	0·94	1·8	1·8	—	—	—	—
Feb.	2·04	1·09	1·8	1·8	—	—	—	—
Mar.	1·73	0·79	2·7	2·7	—	—	—	—
Apl.	1·34	0·89	3·6	3·6	—	—	—	—
May	1·83	1·33	4·38	0·5	—	—	—	—
Jun.	1·56	1·04	4·38	0·5	—	—	—	—
Jul.	1·43	0·98	3·72	0·5	—	—	—	—
Aug.	1·24	0·81	3·07	0·5	0·66	0·66	—	—
Sep.	1·20	0·81	2·63	0·5	0·66	0·66	—	—
Unweighted annual average 1933–34	1·58	0·89‡	2·99	1·42	0·66	0·66	—	—

1934—Oct.	2·04	1 46	2·19	0·5	0·66	0·66	0·7	0·9
Nov.	1·93	1·33	1·97	0·5	0·66	0·66	0·7	0·9
Dec.	2·37	1·88	1·75	0·5	0·66	0·66	1·05	1·35
1935—Jan.	2·28	1·76	2·20	0·5	0·66	0·66	1·05	1·35
Feb.	2·62	2·10	2·35	0·5	0·66	0·66	1·05	1·35
Mar.	2·76	2·26	2·09	0·5	0·66	0·66	1·05	1·35
Apl.	3·56	3·08	2·05	0·5	0·66	0·66	1·05	1·35
May	2·32	1·85	1·89	0·5	0·66	0·66	1·05	1·35
Jun.	2·14	1·64	1·92	0·5	0·66	0·66	1·05	1·35
Jul.	2·71	2·23	1·99	0·5	0·66	0·66	1·05	1·35
Aug.	2·53	2·06	2·08	0·5	0·66	0·66	1·05	1·35
Sep.	2·89	2·39	2·12	0·5	0·66	0·66	1·05	1·35
Unweighted annual average 1934–35	2·51	1·99‡	2·05	0·5	0·66	0·66	0·99	1·27

* Unweighted average for all regions.
† Weighted average for all regions taking into account level delivery premiums earned by many producer-retailers.
‡ Weighted annual average.

TABLE 53.

ALL SCHEMES.

DAIRY HERDS OF SCHEME AREAS AND TOTALS FOR GREAT BRITAIN ANNUALLY FROM 1933 TO 1936.

(Cows and Heifers in Milk and Cows in Calf.)

ENGLAND AND WALES.

Region.	1933.	1934.	1935.	Increase or decrease 1935 over 1933.	Increase or decrease 1935 over 1933	1936.*
					per cent.	
Northern ...	233,024	238,688	247,847	+ 14,823	+ 6·4	248,290
North Western ...	572,252	579,676	598,359	+ 26,107	+ 4·6	606,632
Eastern ...	163,467	162,281	164,816	+ 1,349	+ 0·8	161,747
East Midland ...	179,785	183,459	183,367	+ 3,582	+ 2·0	184,562
West Midland	242,657	245,858	247,052	+ 4,395	+ 1·8	249,075
North Wales ...	122,846	121,718	121,353	— 1,493	— 1·2	121,897
South Wales ...	171,846	174,217	175,935	+ 4,089	+ 2·4	178,559
Southern ...	151,318	158,534	160,241	+ 8,923	+ 5·9	161,312
Mid Western ...	292,816	298,900	302,796	+ 9,980	+ 3·4	306,067
Far Western ...	193,173	196,434	195,378	+ 2,205	+ 1·1	196,922
South Eastern ...	214,000	218,086	217,198	+ 3,198	+ 1·5	215,096
Total England and Wales ...	2,537,184	2,577,851	2,614,342	+ 77,158	+ 3·0	2,630,159

SCOTLAND.

†Total	402,171	408,156	410,175	+ 8,004	+ 2·0	409,705
Main Scottish area	287,520	292,987	296,345	+ 8,825	+ 3·1	297,627
Aberdeen and District ...	48,622	48,789	47,621	— 1,001	— 2·1	46,758
North of Scotland	47,580	47,921	47,858	+ 278	+ 0·6	47,205

GREAT BRITAIN.

England and Wales ...	2,537,184	2,577,851	2,614,342	+ 77,158	+ 3·0	2,630,159
†Scotland ...	402,171	408,156	410,175	+ 8,004	+ 2·0	409,705
†Total Great Britain ...	2,939,355	2,986,007	3,024,517	+ 85,162	+ 2·9	3,039,864

* Provisional figures for 1936, which have recently become available.

† Excluding Orkney and Zetland.

TABLE 54.

ALL SCHEMES.

QUANTITIES OF MILK SOLD UNDER "MILK-IN-SCHOOLS" SCHEMES MONTHLY FROM INCEPTION TO MARCH, 1936.

(Thousands of gallons.)

Month.	English scheme.	Main Scottish scheme.	Aberdeen scheme.	North of Scotland scheme.	Total.
1934—Oct. ...	1,972	—	—	—	1,972
Nov. ...	2,448	20	—	—	2,468
Dec. ...	1,772	34	—	—	1,806
1935—Jan. ...	2,175	114	—	—	2,289
Feb. ...	2,348	174	—	—	2,522
Mar. ...	2,388	312	—	—	2,700
Apl. ...	1,649	214	—	—	1,863
May ...	2,246	363	—	0·5	2,609
Jun. ...	1,586	297	—	1·0	1,884
Jul. ...	1,833	34	—	—	1,867
Aug. ...	450	83	—	0·1	533
Sep. ...	1,984	288	—	1·4	2,273
Total 1934–35 ...	22,851	1,933	—	3·0	24,787
1935—Oct. ...	2,273	311	—	2·1	2,586
Nov. ...	1,951	264	—	1·6	2,217
Dec. ...	1,562	201	—	1·1	1,764
1936—Jan. ...	1,901	221	—	1·5	2,123
Feb. ...	2,051	245	12	1·8	2,310
Mar. ...	2,302	264	13	2·1	2,581

TABLE 55.

UNITED KINGDOM.

NET IMPORTS OF MILK PRODUCTS: AVERAGE OF 1909–13 AND EACH YEAR FROM 1929 TO 1935.

Year.	Butter.		Cheese.		Cream.		Condensed milk (whole).		Condensed milk (skimmed).		Milk powder (whole).		Milk powder (skimmed).	
	1,000 cwt.	Per cent. Empire.	1,000 cwt.	Per cent. Empire.	1,000 cwt.	Per cent. Empire.	1,000 cwt.	Per cent. Empire.	1,000 cwt.	Per cent. Empire.	1,000 cwt.	Per cent. Empire.	1,000 cwt.	Per cent. Empire.
1909–13	4,067	22·7	2,298	81·6	8	—	479	0·1	602	—	—	—	28	14·8
1929 ...	6,275	41·1	2,962	86·2	138	55·8	659	5·9	1,985	3·6	16	100·0	249	56·5
1930 ...	6,648	45·0	3,082	86·9	135	49·6	624	6·7	1,972	3·6	14	100·0	235	48·3
1931 ...	7,709	50·1	2,856	87·6	176	44·9	705	6·2	2,085	1·9	8	100·0	344	43·1
1932 ...	8,059	51·7	2,974	89·6	136	53·7	599	20·9	2,139	2·3	6	100·0	315	52·5
1933 ...	8,746	52·6	3,016	92·0	110	44·5	523	30·6	1,918	4·4	5	99·8	274	68·9
1934 ...	9,596	54·3	2,958	91·5	85	45·9	462	30·7	1,628	4·2	4	100·0	248	69·5
1935* ...	9,481	56·6	2,684	88·3	75	45·7	379	38·8	1,405	4·7	6	100·0	215	78·8

* Provisional.

TABLE 56.

UNITED KINGDOM.

DUTIES AT PRESENT CHARGEABLE ON IMPORTED MILK PRODUCTS.

Commodity.	Rate of duty chargeable on imports from		
	Foreign countries.	Irish Free State.	Other British countries.
Butter	15s. per cwt.	10 per cent. plus 30 per cent. ad valorem.	Free.
Cheese	15 per cent. ad valorem.	10 per cent. ad valorem.	Free.
Cream	10 per cent. ad valorem.	10 per cent. plus 30 per cent. ad valorem.	Free.
Milk, condensed, whole; sweetened or slightly sweetened.	5s. per cwt. plus the duty payable on the sugar content.	10 per cent. ad valorem plus the preferential duty payable on the sugar content.	Duty (preferential) payable on the sugar content.
Milk, condensed, whole; not sweetened.	6s. per cwt.	10 per cent. ad valorem.	Free.
Milk, condensed, separated or skimmed; sweetened.	10 per cent. ad valorem or the duty payable on the sugar content, whichever is the greater.	10 per cent. ad valorem or the preferential duty payable on the sugar content, whichever is the greater.	Duty (preferential) payable on the sugar content.
Milk powder; sweetened.	10 per cent. ad valorem or the duty payable on the sugar content, whichever is the greater.	10 per cent. ad valorem or the preferential duty payable on the sugar content, whichever is the greater.	Duty (preferential) payable on the sugar content.
Milk powder and other preserved milk, excluding condensed milk not sweetened.	6s. per cwt.	10 per cent. ad valorem.	Free.

TABLE 57.

UNITED KINGDOM.

QUANTITATIVE REGULATION OF IMPORTS OF CERTAIN MILK PRODUCTS.

—	Percentage reductions proposed in supplies from principal foreign supplying countries compared with imports in corresponding periods of base year, June, 1932, to May, 1933.			
	Condensed milk.		Milk powder.	Cream.
	Whole.	Skimmed.		
1933—Jun.–Sep. ...	20	20	20	20
Oct.–Dec. ...	20	Oct. 20 Nov. 20 Dec. 15	20	20
1934—Jan.–Mar. ...	20	Jan. 17½ Feb. 20 Mar. 22½	20	Jan. 20 Feb. 22½ Mar. 25
Apl.–Jun. ...	20	22½	20	30
Jul.–Aug. ...	20	22½	20	33⅓
Sep. ...	30	22½	25	33⅓
Oct.–Dec. ...	30	30	25	35
1935—Jan.–Mar. ...	30	30	25	35
Apl.–Jun. ...	35	40	30	40
Jul.–Sep. ...	40	40	35	45
Oct.–Dec. ...	40	40	35	50
1936—Jan.–Mar. ...	40	40	35	50
Apl.–Jun. ...	40	40	35	50
Jul.–Sep. ...	40	40	35	50

Note.—With the exception of milk powder, of which the quantity manufactured is negligible, imports from the Irish Free State have been controlled from 1st January, 1934. Reductions at approximately half the rates applicable to the foreign supplying countries were arranged from January, 1934, to December, 1935, while since January, 1936, arrangements have been made for supplies to be limited to the same volume as in the base year, i.e., the calendar year, 1933.

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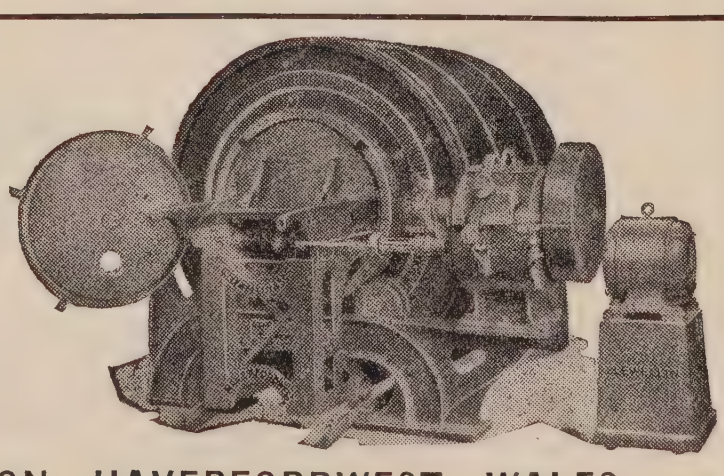
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